VSB —TECHNICAL UNIVERSITY OF OSTRAVA

FACULTY OF ECONOMICS

DEPARTMENT OF FINANCE

Zhodnocení aktivity a likvidity společnosti China Mobile Limited

Evaluation of Activity and Solvency of the China Mobile Limited Company

Student: Jing Luo

Supervisor of the bachelor thesis: Ing. Petr Gurný, Ph.D.

Ostrava 2015

VŠB - Technical University of Ostrava
Faculty of Economics
Department of Finance

Bachelor Thesis Assignment

Student:	**Jing Luo**
Study Programme:	B6202 Economic Policy and Administration
Study Branch:	6202R010 Finance
Specialization:	01 Finance
Title:	Zhodnocení aktivity a likvidity společnosti China Mobile Limited Evaluation of Activity and Solvency of the China Mobile Limited Company

Description:

1. Introduction
2. Description of the Activity and Solvency Evaluation Methodology
3. Basic Financial Characteristic of GOME Electrical Appliances Holding Limited
4. Analysis of the Activity and Solvency of the Selected Company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

References:

DRAKE, Pamela. *Analysis of Financial Statements*. 3rd ed. New York: Wiley, 2012. ISBN 978-1118299982.
ROSS, A. S., R. W. WESTERFIELD and J. JAFFE. *Corporate Finance*. 6th ed. New York: Mcgraw-Hill College, 2002. ISBN 978-0072831931.
ZMEŠKAL, Zdeněk et al. *Financial Models*. Ostrava: VSB- Technical University of Ostrava, 2004. ISBN 80-248-0754-8.

Extent and terms of a thesis are specified in directions for its elaboration that are opened to the public on the web sites of the faculty.

Supervisor: **Ing. Petr Gurný, Ph.D.**

Date of issue: 21.11.2014
Date of submission: 07.05.2015

Ing. Iveta Ratmanová, Ph.D.
Head of Department

prof. Dr. Ing. Dana Dluhošová
Dean of Faculty

The Declaration

Herewith I declare that I elaborated the entire thesis, including all annexes, independently.

Ostrava dated 6. 5. 2015

Jing Luo 罗镜

Student's name and surname

Contents:

1. Introduction ...……...5
2. Description of the Activity and Solvency Evaluation Methodology..... 7
2.1 Financial Analysis 8
2.2 Financial Statement 8
2.2.1 Balance Sheet 8
2.2.2 Cash Flow Statement..... 10
2.2.3 Income Statement 11
2.3 Common-size Analysis..... 12
2.3.1 Vertical Common-size Analysis 12
2.3.2 Horizontal common-size analysis 13
2.4 Financial Ratio Analysis..... 14
2.4.1 Activity Ratio 14
2.4.2 Solvency Ratio 16
2.5 Pyramidal Decomposition 17
2.6 Purpose of Activity and Solvency Evaluation Method 20
3. Financial Characteristics of China Mobile Limited 22
3.1 The Basic Data of CMCC 22
3.2 The Sustainable Development of China Mobile 22
3.3 The Description of Basic Data of China Mobile 23
3.3.1 The Simplified Balance Sheet of China Mobile..... 23
3.3.2 The Simplified Cash Flow of China Mobile 24
3.3.3 The Simplified Income Statement of China Mobile 25
3.4 The Common-size Analysis of China Mobile 26
3.4.1 The Horizontal Analysis..... 26
3.4.2 The Vertical Analysis..... 32
3.5 Vertical-horizontal Analysis 37
3.6 Summary of Financial Position Characteristics of China Mobile Limited 39
4.1 Financial Ratio Analysis..... 40
4.1.1 Activity Ratio Analysis..... 40

4.1.2 Solvency Ratio Analysis 46
4.2 Pyramidal Decomposition Analysis 50
4.2.1 Total Assets Turnover Ratio 50
4.2.2 Pyramidal Decomposition of Solvency Ratio 58
4.3 Sensitivity Analysis 65
4.4 Summary of Activity and Solvency Analysis 68
5. Conclusion 70
Bibliography 72
List of Abbreviation 73
List of Annex

1. Introduction

China mobile limited is one of the best communication companies, it is a good company with more than 767.206 million customer and 800 billion yuan assets. In our thesis, we will introduce evaluation of activity and solvency of the company China Mobile Limited, which can help investor to do some financial decisions.

The goal of this thesis is to estimate the financial position through Common-size analysis, financial analysis, pyramidal decomposition and sensitivity analysis to find the advantage and disadvantage of China Mobile. In this thesis, we will focus on activity and solvency analysis. These two ratios are very important for a company to evaluate its performance and improve its weakness in order to make the company more powerful.

We are aiming to analyze activity and solvency ratio, in order to find out some methods can help company improve the assets' efficiency utilization and enhance the ability to meet its long-term liabilities. Then we quantify the influences of each indicator on a chosen key indicator. Through change each indicator's proportion to improve a company's performance.

In chapter 2, we present the methodology of activity and solvency, it can give us some theoretical knowledge such as the definition of financial statement and information of formula which can help us calculate some ratio in chapter 3. Through chapter 2 we can know common-size analysis, financial ratio analysis, pyramidal analysis and sensitivity analysis are four important methods to help us evaluate enterprise's operating situation.

Chapter 3 mainly includes the introduction of China Mobile Limited and common-size analysis. From this chapter, we can have a better understanding about this company, as we know basic information of a company is necessary for investors. And common-size analysis has two parts: vertical common-size analysis is the most common and horizontal common-size analysis.

The most important part is chapter 4 which emphasize the financial ratio, pyramidal decomposition and sensitivity analysis. In this chapter, we will calculate the financial ratio of activity and solvency and compare these ratios with other companies China Telecom and China Unicom in the same industry. At the same time, pyramidal decomposition can decompose activity and solvency ratio into each component indicators that can help us to

know which indicator has the most important influence for a company. Sensitivity analysis is to find out the sensitivity factors which means some parameters' small change can lead to a big difference to the index. The sensitivity factors can provide decision information for a company, if company wants to avoid risks, they can choose a project with small sensitivity.

The last chapter is conclusion, we will do a summary about these results and give some feasible solutions to company.

2. Description of the Activity and Solvency Evaluation Methodology

In this part, we will describe the activity and solvency evaluation methodology. Asset management (activity) ratios measures how well a company uses its assets, they reflect the level of business efficiency and whether a variety of resources are fully utilized. Solvency ratio measures company's abilities to meet its long-term obligation, the size of the solvency largely reflects the degree of business risk. Most descriptions of chapter 2 are according to the information of Brealey and Myers (2008).

2.1 Financial Analysis

Financial analysis is by collecting, collating relevant data in corporate financial accounting reports, and combined with other relevant supplementary information, to do a comprehensive comparison and evaluation about the enterprise's financial position, operating results and conditions of cash flow, in order to master the enterprise's financial activity status, forecasting of financial development trends, and provide a property management activity for business decision-making.

General purpose of financial analysis for three reasons: first of all, mastering the regularity of production and operation, the company's production and business activities, with the development of production, such as the size of the volume of business is following certain regularity. In the second, understanding the management situation and existing problems of enterprises, through the financial analysis, can timely diagnosis the "health" condition of the enterprise, serving for the decision-making and daily management. Third, we will clarify the company's strengths and weaknesses in order to help enterprise's development strategies and competition with other company on the market.

The methods of financial analysis including three categories: common-size analysis, it includes horizontal analysis and vertical analysis, financial ratio analysis, in this thesis we will show the two aspects about evaluation of activity and solvency of China Mobile, and pyramidal decomposition analysis.

2.2 Financial Statement

The financial statements reflect the business conditions of the enterprise, and it can be divided into four kinds: balance sheet, income statement, cash flow statement, and changes in equity. The changes in equity of a company are the latest formal financial statement, which comply the regulations of accounting law.

The data of financial statement is important for us to analysis a company's financial situation. For investors, there must be a careful study of the investment company of these four reports, at the same time, pay close attention to the business situation and development trend of the industry, in order to achieve the maximal investment return.

The most of this information is based on the content of book states by Drake (2012).

2.2.1 Balance Sheet

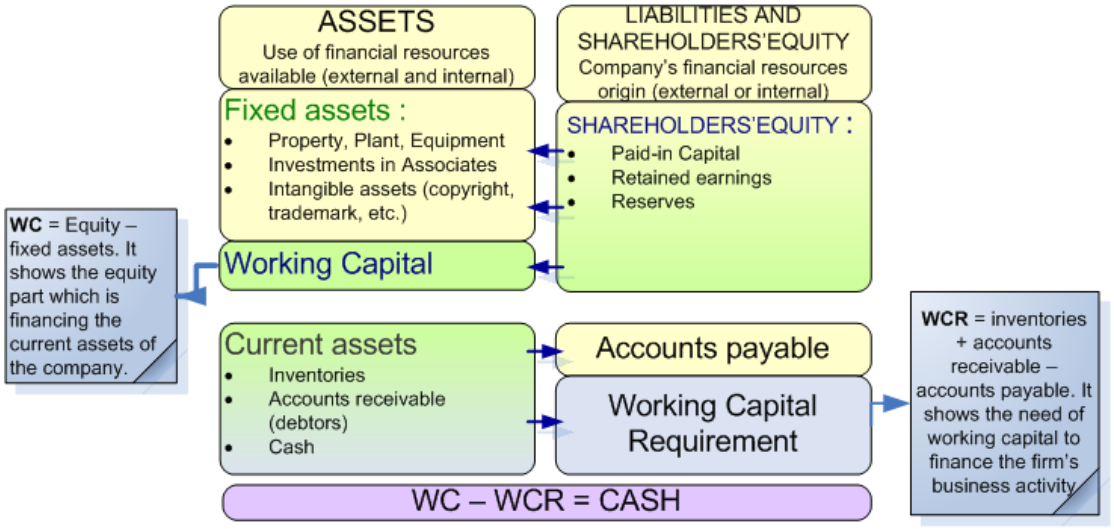
Balance sheet, or statement of financial position is one of the financial statement, which represents a company’s financial situation (such as status of assets, liabilities and owners 'equity) in a certain date (usually for the accounting period), balance sheets use accounting balance principle, put the transaction accounts into two blocks of assets, liabilities and shareholders' equity. After entry, transfer, ledger, trial balance, adjusted accounting procedures, etc., in a static situation of the enterprise as a benchmark specific date, concentrated into a report. In addition to correcting the internal error of enterprise, prevent malpractice, but also to all investor in the shortest possible time to understand the business situation of a company.

$$TA = TL + E \tag{2.1}$$

Formula 2.1, where TA is "total assets", E is "shareholder's equity", TL is "total liabilities".

We can see from formula 2.1, total assets are equal to the total liabilities plus the total shareholder's equity.

Image 2.1 the Structure of Balance Sheet



Sources: Drake (2012)

From Image 2.1, we can see working capital minus working capital requirement is cash, and working capital is equal to equity minus fixed assets that shows the equity part which is financing current assets of the company. And working capital requirement is equal to inventories plus accounts receivable minus accounts payable that shows the need of working capital to financing the firm's business activity.

On the left side, total assets include current assets, fixed assets and other assets. Current assets means cash or some else assets can be easily converted into cash in a short term, it includes bank deposits and other marketable securities, inventory, accounts receivable and so on. Marketable security refers to investments which has low risk and can be turned into cash with a maturity less than a year. Inventory means the finished goods or commodities held by an enterprise in their daily activities to prepare for the sale, and the raw materials consumed in the production process. Accounts receivable is goods or service purchased by customer on credit, it aims to expand sales and reduce inventory for the company.

There are fixed assets (non-current assets) which refer to property, plant and equipment that produce tangible profits with more than a year maturities. And a company's non-current assets also involve intangible assets such as copyright, trademark and goodwill. Net fixed assets are the original value of fixed assets minus accumulated depreciation.

On the right side, we can see the liabilities and shareholder's equity. Liabilities can be divided into two groups, one is current liabilities, that will be paid within one year, the total

amount of account payable, accrued items and short-term debt is current liabilities; the other is long-term debt which liabilities can be extended beyond one year, which include three main types such as long-term debt, capital leases and deferred taxes.

Company's net working capital is the difference between current assets and current liabilities, which represents the available capital that can be used to run the business in the short term

Based on the formula 2.1, left side is equal to right side, we can change the formula 2.1 to:

$$E = TA - TL \tag{2.2}$$

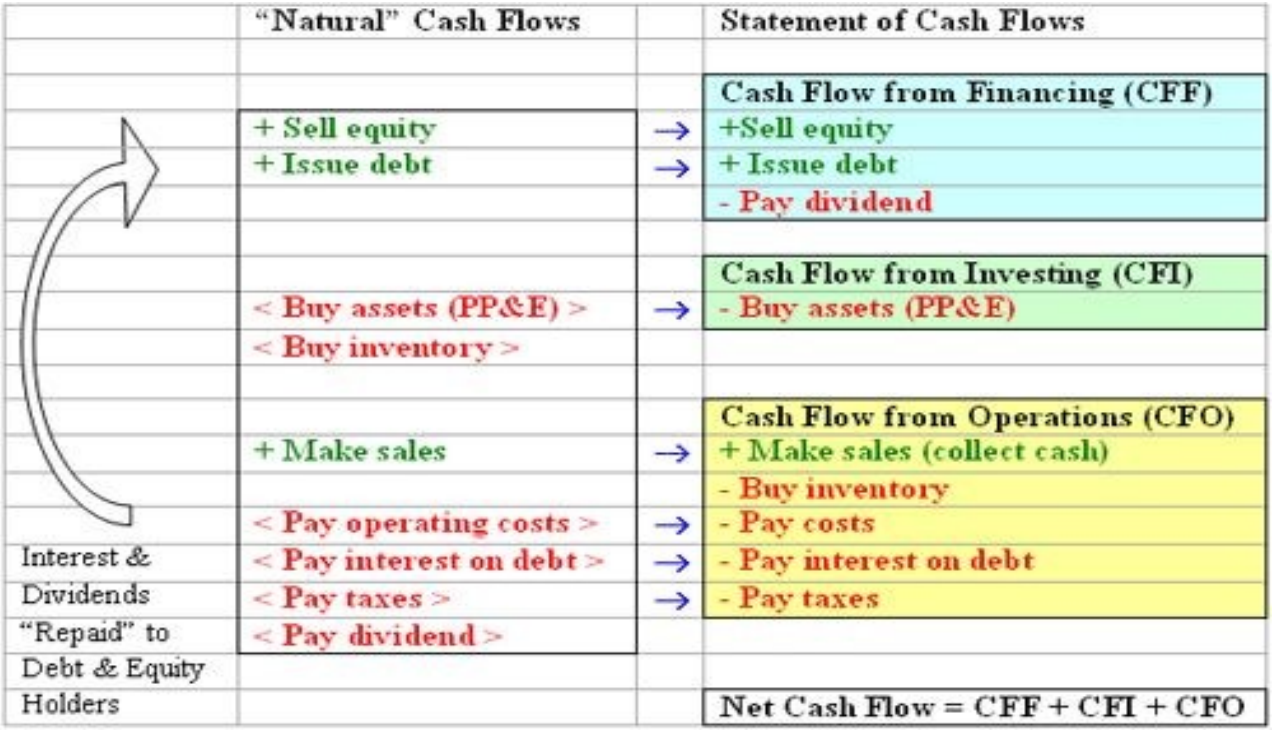
Shareholder's equity also can be called book value of equity, it is the difference between total assets and total liabilities. Book value of equity includes paid-in capital, retained earnings and reserves.

2.2.2 Cash Flow Statement

Cash Flow statement is the cash and including bank deposits of an institution increasing or decreasing during a fixed period. The appearance of the cash flow statement, mainly to reflect the impact of each project of balance sheet to the cash flow, and according to its purpose it can be divided into operating, investing and financing activities in three categories. Cash flow statement can be used to analyze an organization whether have enough cash to pay its liabilities in a short term.

Cash flow statement is the dynamic situation report to reflect a company's cash inflows and cash outflows in a certain period. Its contents are consistent with the composition of the balance sheet and income statement, and cash flow statement can be summarized to reflect operating activities, investing activities and financing activities affect the cash inflow and outflow of corporate. And for evaluation of corporate profits, financial position and financial management, it provides a better foundation than the traditional income statement. Cash flow statement provides us evidence about the company's healthy problem.

Image 2.2 Cash Flow Statement



Sources: Drake (2012)

We can see from Image 2.1, net cash flow is equal to cash flow from financing plus cash flow from investing plus cash flow from operations. In general, we can see financing activity means sell equity or issue debt. Investing activity can be buying the assets, and operation activity is the market sale to get revenues and paying some costs or taxes.

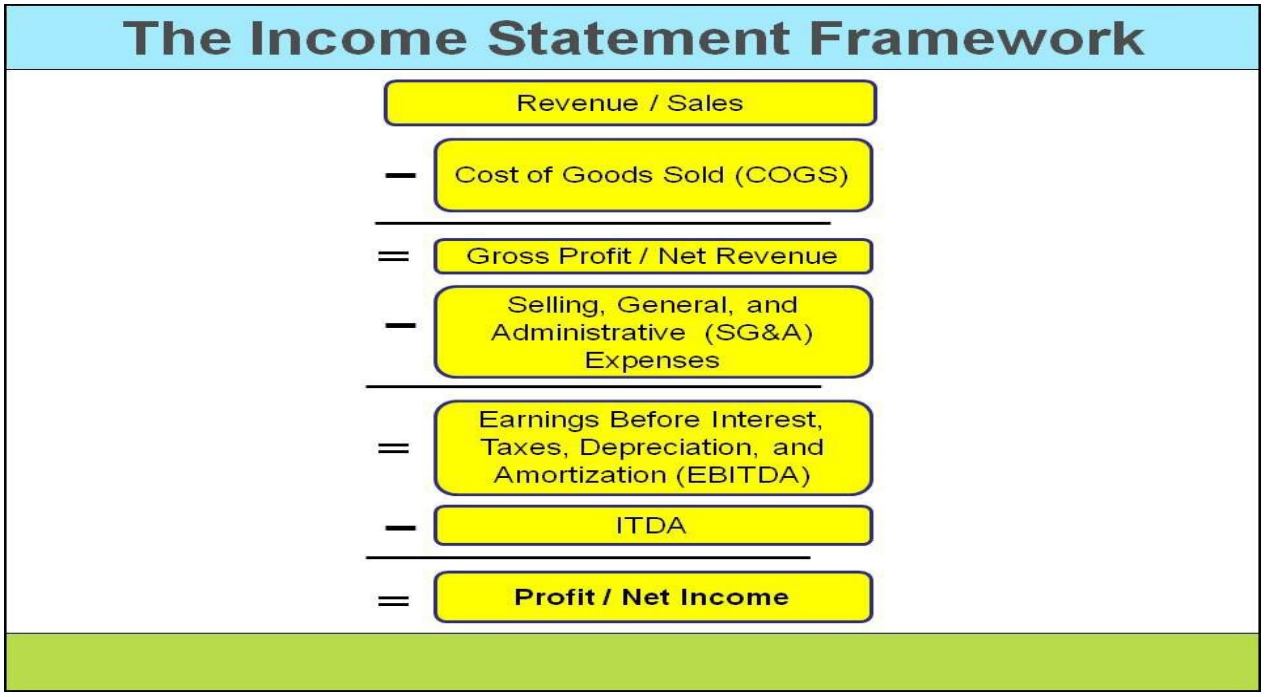
2.2.3 Income Statement

Income statement is one of the financial statements which reflects the enterprise's operating results and the allocation of resources during a certain accounting period. There is a financial record about company's operating performance in income statement. It reflects the sales, revenue, cost of sales, operating expenses and tax status, the results of income statement is profit or loss that a company has achieved in the certain period time.

There is another name about income statement, profit and loss account. It can be calculated as follows:

$$Revenue - Cost = Income \tag{2.3}$$

Image 2.3: The Structure of Income Statement



Sources: Drake (2012)

We can see from table 2.3, sale is equal to total revenues, through this framework, sales minus cost of goods sold is net revenues, then net revenues minus selling and administrative expenses is equal to earns before interest and tax and depreciation and amortization (EBITDA), next EBITDA minus ITDA is the profit or net income.

2.3 Common-size Analysis

In this section, we will introduce common-size analysis, most of the description is state by Dluhosova and Zmeskal (2004).

Common size analysis is a method to examine financial statements for different company over the time, and it is different to spot changes in relationship because the scale of the company's accounts changes over time due to inflation, growth, acquisitions and divestitures. It also changes to compare financial statements of companies of different sizes. Hence, a technique that we use to control foe the scale effect is common-size analysis. It can be divided into two types: vertical analysis and horizontal analysis.

2.3.1 Vertical Common-size Analysis

Vertical common-size analysis is much more common than any others, we can compare the proportion of each item to the selected benchmark during a specific time. It is used for the

analysis of financial data. Vertical common-size analysis is calculated as the following formula:

$$IP_t = \frac{I_t}{B_t} \tag{2.4}$$

Where I_t is the amount of item of this benchmark we want to analyze, and the B_t as the amount of benchmark.

Based on the information of Brealey and Myers (2008), we can know vertical common-size analysis is often to use analyze patterns in profitability and patterns in investments and financing. Through this analysis, we can make comparison for the company by using its resulting percentage, we also can inspect this percentage with other relative companies in the same industry in order to know how the selected company's market situation and how to improve it. Additionally, we can see how a company's reliance on debt financing has changed over time by focusing on liabilities as percentage of assets.

2.3.2 Horizontal common-size analysis

The horizontal analysis is another form of common-size analysis, that we can use the accounts in a specific period as the benchmark and compare analysis every item account in subsequent periods' percentage with the benchmark. The horizontal common-size analysis is using to identify trends of growth of accounts through the time. And these data can reflect a company's financial situations. We can see form formula 2.5 to calculate the relative change from different period.

$$\Delta l_t = \frac{l_t - l_{t-\Delta t}}{l_{t-\Delta t}} \tag{2.5}$$

Where we can see, the l_t means the value about the item in one year, and $l_{t-\Delta t}$ is the value about the item in a particular year, it also can be called benchmark year. We can calculate the values in later years through relative to the base year. We can get the information about relative change of financial statement of a company and in order to analysis companies' financial position.

2.4 Financial Ratio Analysis

Financial ratio analysis is the process of selecting, evaluating and interpreting financial data. It is the method of financial accounting, and can help us to understand the actual situation of companies through compare performance of each year. It means financial ratio can give information about assessment of companies' financial condition and financial performance.

There are some reasons why we need financial ratio analysis: On the one hand investor need to evaluate company's operations, expenses management, credit policy and creditworthiness, on the other hand, we can formulate the assessment of the company's present and future financial position. We can classify financial ratios into five kinds: profitability ratio, liquidity ratio, activity ratio, solvency ratio and market ratio. In our thesis, we will emphasize activity and solvency ratio. And in order to have the latest information which can help investor to do some efficient investment, we compare these ratios from different companies in the same industry,

2.4.1 Activity Ratio

Activity ratio also can called asset management ratio, this ratio can help us to know whether a company's assets are used efficiency. And it can indicate how much a company invests in particular assets. Effective using of assets has a direct impact on company's liquidity. Activity ratio can be divided into two groups: turnover ratio and number of days. We will emphasize on introducing turnover ratio.

Receivables Turnover

Receivables turnover is a ratio which can measure how fast the accounts receivable can be collected in the period. In general, we can see if a company has the higher receivable turnover, there will be a better situation, because it can get the receivables much more quickly, and situation of bad debt loss will be happened less, companies can get more liquidity. But every coin has two sides, different company has different actual situation. TRT can be calculated as follows:

$$Reveivables\ turnover = \frac{Revenue}{Average\ receivable} \quad (2.6)$$

From formula 2.6, revenues is credit sale, we can find TR or credit sales in income statement, and AAR in balance sheet.

Total Assets Turnover

Total assets turnover is an efficiency ratio which can tell us how successfully the company uses its assets to generate revenue. For example: TAT is 2, means each unit invested in assets generates revenues of 2, it is better than 1, higher TAT represents better. TAT can be calculated as follows:

$$Total\ assets\ turnover = \frac{Revenue}{Average\ total\ assets} \quad (2.7)$$

From formula 2.7, we can find ATA in balance sheet. If we want have a higher TAT, we can increase the denominator or decrease the numerator.

Current Assets Turnover

Current assets turnover refers to the ratio between the enterprise net amount of main operating income during a given period and the total amount of average current assets. This ratio is an important index for enterprise assets utilization evaluation.

$$Current\ assets = \frac{Revenue}{Current\ assets} \quad (2.8)$$

In a certain period, the higher current assets turnover shows the more efficient utilization of current assets. Hence, if we want to realize the index's benign changes, we should ensure the growth of main operating income is higher than the growth of current assets.

Payable Turnover

Payable turnover represents a financing source for a company's operating activities. This ratio can help us know how many times each period the company need to pays its average payable amount. Payable turnover can be calculated as follows:

$$Payable\ turnover = \frac{Revenue}{Average\ accounts\ payables} \quad (2.9)$$

From formula 2.9, we can find average accounts payables in current liabilities of balance sheet. When the payable turnover becomes lower, which means a company will take more times to pay its debt. Hence if we want to have lower payable turnover, we can increase the

denominator and decrease numerator.

2.4.2 Solvency Ratio

Solvency ratio, it also can be called leverage ratio. Solvency ratio measures a company's abilities to meet its long-term obligation. In general, we can divided solvency ratio into two groups: component-percentage solvency and coverage ratio. In the thesis, we will introduce debt ratio, debt to equity ratio in component-percentage and interest in coverage ratio. A company's assets can be financed by equity, debt and the combination of these two.

Debt to Assets Ratio

Debt to assets ratio reflects the importance of the company's debt financing, and it has a direct relationship with financial risk: the higher is the debt to assets ratio, the higher the financial risk will be; on the contrary, the lower is the ratio, the lower the financial risk will be.

$$Debt-to-assets\ ratio = \frac{Total\ debt}{Total\ assets} \tag{2.10}$$

From formula 2.10, we can know debt to assets ratio measures how much percentage the assets is financed by liabilities about this company. This ratio covers widely, because total debt has current liabilities with less than one year maturity and long-term liabilities which maturity is more than a year; in the same time, total assets including current and fixed assets as well as tangible and intangible assets. This ratio can help us compare different company's leverage.

Debt to Equity Ratio

Debt to equity ratio is quite similar to debt ratio, it shows the amount of debt divided by company's equity. This ratio is a reflection of the relative relationship between equity capital provided by the owners of capital and liabilities that provided by the creditor, as well as whether the company's basic financial structure is stable.

$$Debt-to-equity\ ratio = \frac{Total\ debt}{Total\ shareholders'\ equity} \tag{2.11}$$

We can know debt to equity ratio represents the level of protection for the equity of creditors and the equity of investors. In the inflation period, the company can put more debt

losses and risk to creditors; during the boom years, the company has more debt can get additional profits. For example, if debt to equity ratio is higher than one point, it means company must use more debt than equity for financing assets.

Interest Coverage

Interest coverage ratio, is an indicator measuring whether the company's generated pre-tax profit is able to pay current interest. For example, if IC is 5, it means there are 20 percent operating profit is consumed by interest paid.

$$Interest\ coverage = \frac{Earn\ before\ interest\ and\ tax}{Interest\ paid} \tag{2.12}$$

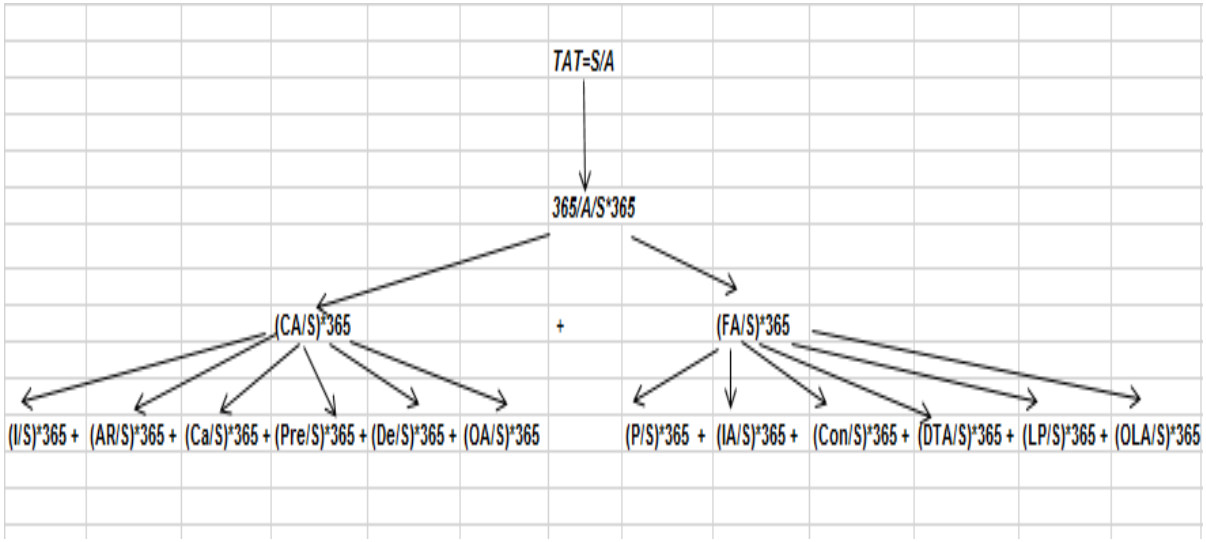
Interest coverage is basically a risk warning indicators, particularly when a company is experienced a period of low performance and vulnerable free cash flow, it is more critical. IC can also approve whether there is a ability for the company pay interest to avoid debt risk, and whether there is a financing capacity to reverse the predicament. If IC is lower than one, company has been a very critical situation, and shows the company generated profits even not enough to pay the bank interest. In fact, when the ratio is less than 1.5, investors should be careful.

2.5 Pyramidal Decomposition

Pyramidal decomposition analysis uses the relationship between several key financial ratios to get a comprehensive analysis of the financial situation of the enterprise. We use pyramidal decomposition analysis to evaluate a company's activity and solvency situations, it is a classic enterprise performance evaluation methods from a financial point of view. The basic idea is to gradual decompose some basic ratio into several component indicators, which helps in depth analysis and comparison of business performance.

In our thesis, we will analyze total assets turnover ratio and debt to equity ratio. We can decompose TAT into 365/(A/S)*365, assets have current assets and fixed assets, then we can gradual decompose these assets to some component items. And debt ratio D/A, financial leverage A/E are the main component ratio of DTE, we can decompose DTE into this two major indicator and then do the next decomposition.

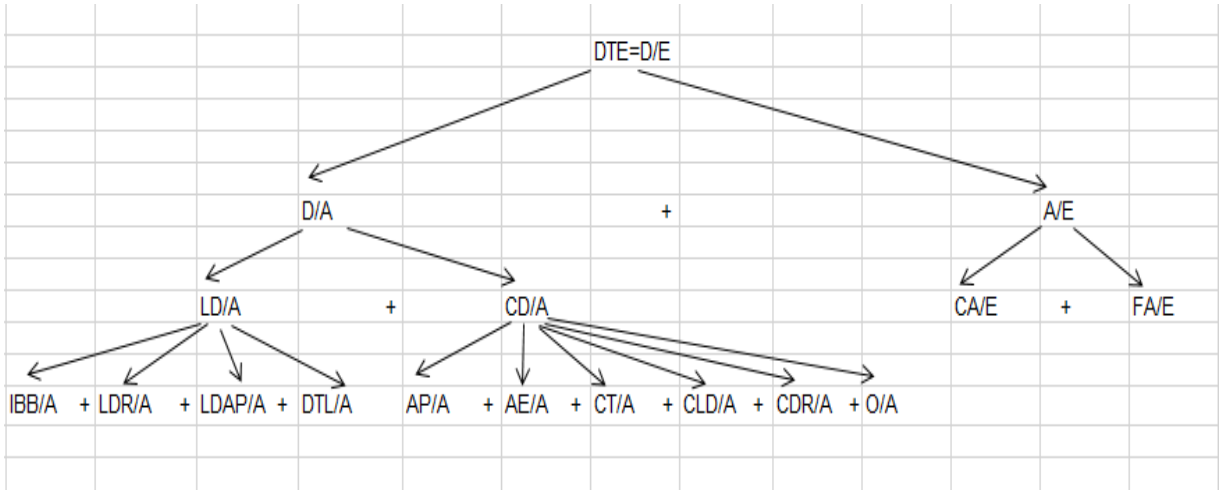
Image 2.4 Pyramidal Decomposition of Total Assets Turnover



Where S is "sale", which also equal to the revenues, FA represents "fixed assets". FA can be decomposed into P, IA, Con, DTA, LP, OLA, where P represents "plant and property", IA represent "intangible assets" which include goodwill, Con is "construction in progress", DTA represents deferred tax assets, LP is "lease prepayment", and OLA is "other long-term assets". CA is "current assets", we decomposed it into I, AOR, Ca, Pre, De, OA. I represents "inventory", AOR represents "accounts and other receivables", Pre is "prepayment", De is "bank deposits" and OA is "other assets"

We can see from Image 2.1, TAT is decomposed into 12 decomposed indicators are: (I/S)*365, (AR/S)*365, (Ca/S)*365, (Pre/S)*365, (De/S)*365, (OA/S)*365, (P/S)*365, (IA/S)*365, (Con/S)*365, (DTA/S)*365, (LP/S)*365 and (OLA/S)*365.

Image 2.5 Pyramidal Decomposition of Debt to Equity Ratio



Where DTE is debt to equity ratio, D represent debt and E represent equity. Here A

means assets. LD and CD respectively are total long-term debt and total current debt. IBB means interest-bearing borrowing, LDR means deferred revenue excluding current portion. LDAP and DTL respectively are long-term debt and payables and deferred tax liabilities. CD/A include six component indicators, they are AP/A, AE/A, O/A, CT/A, CLD/A and CDR/A, these indicators represent accounts payable, accrued expenses and other payables, obligations under finance leases, current taxation, current portion of long-term debt, other current debt, short-term debt and deferred revenue of current portion.

Additive Operations

$$\Delta X_{a_i} = \frac{\Delta a_i}{\sum_i \Delta a_i} \cdot \Delta y_x \tag{2.13}$$

Where Δa_i is the variation of component indicator from two companies. Here $\sum_i \Delta a_i$ is the sum of both decomposed indicators from these two companies. And Δx_{a_i} is the influence based on the date of two comparable companies' basic ratio.

Multiplicative Operations for the Logarithmic Method

$$\Delta x_{a_i} = \frac{\ln I_{a_i}}{\ln I_x} \cdot \Delta x \tag{2.14}$$

Symbols:

Where x is basic ratio, Δx represents absolute change in the basic ratio, $I_a = \frac{x_1}{x_0}$ represents index of change in basic ratio, and $I_a = \frac{a_1}{a_0}$ represents index of change in component ratio.

The advantage of logarithmic decomposition method is that we just need one formula for the impact quantification regardless of how many component ratio we have.

Method of Gradual Changes

$$\Delta x_{a_1} = \Delta a_1 \cdot \Delta a_{2,0} \cdot \Delta a_{3,0} \cdot \ldots \cdot a_{n,0}$$

$$\Delta x_{a_2} = a_{1,1} \cdot \Delta a_2 \cdot \Delta a_{3,0} \cdot \ldots \cdot a_{n,0}$$

$$\Delta x_{a_3} = a_{1,1} \cdot a_{2,1} \cdot \Delta a_3 \cdot \ldots \cdot a_{n,0}$$

$$\ldots$$

$$\Delta x_{a_n} = a_{1,1} \cdot a_{2,1} \cdot a_{3,1} \cdot \ldots \cdot \Delta a_n$$

$$\Delta x_{a_i} = \Delta a_i \cdot \prod_{j \geq i} a_{j,0} \cdot \prod_{j \leq i} a_{j,1} \tag{2.15}$$

Symbols:

Where x is basic ratio, Δx is absolute change in the basic ratio, a represents component ratio, Δa represents the absolute change in the component ratio, and Δx_{a1} represents the absolute change in the basic ratio caused by the change in the first (a_1) component ratio.

2.6 Purpose of Activity and Solvency Evaluation Method

In this section, we introduced some method for calculating the common-size analysis, financial ratio analysis and pyramidal decomposition analysis.

Common-size analysis methodology is the basic for us to know the absolute change of vertical common-size analysis and relative change of horizontal common-size analysis. We can evaluate different financial statement over the time.

Financial ratio analysis methodology mainly introduced activity and solvency ratio. We can get some information about whether company is healthy and its performance through these data.

Pyramidal decomposition analysis methodology is to analyze which component indicator makes the biggest influence for the company's activity and solvency ratio. Through gradual decompose basic ratio, we can find the detail indicators' influence to company.

Chapter 2 also introduced the basic methodology about three financial statements: balance sheet, income statement and cash flow statement. Through analyze these statements we can get depth understanding for the company and make the advisable choice.

All of these methodologies are useful for us to do analysis on next two chapters.

3. Financial Characteristics of China Mobile Limited

In this chapter, we will discuss the financial position characteristics about the China Mobile Limited, and the basic information about this company and the history, further more the main competitor of China Mobile Limited.

3.1 The Basic Data of CMCC

The full name of CMCC is "China Mobile Communications Corporation", the information of this company are based on the official website of China Mobile. It is established in April 20, 2000, the registered capital of 300 billion yuan, assets of over one trillion yuan, the total number of base stations over 1.3 million, the total number of nearly 800 million customers, and it is the mobile communication operators which have the largest size of global network and the customer. In 2013, China Mobile among the "Fortune" magazine "Fortune 500" ranked 71, and was selected for six consecutive years and the Dow Jones Sustainability Index. It is a communications operators based on GSM standard network. China Mobile Communications Corporation is based on national plans and requirements on telecommunications reform, on the basis of the former China Telecom Mobile asset stripping on the formation of the whole state-owned enterprises. On May 16, 2000, it has been officially listed. China Mobile Communications Corporation, a wholly-owned China Mobile (Hong Kong) Group Limited, its holding in China Mobile Limited ("listed company") to establish a wholly-owned subsidiary in the country 31 provinces (autonomous regions and municipalities) and the Hong Kong Special Administrative Region the company and listed on the Hong Kong and New York.

In addition to the original "M-Zone", "Global", "Power 100", "G3", in December 18 2013, the China Mobile announced a collaboration with Bond Design 4G brand "And! " sign 4G services with China mobile officially launched. The development of the slogan: Mobile 4G, the international mainstream, quick step.

3.2 The Sustainable Development of China Mobile

The theme of 2013 sustainable development report about China Mobile Limited is: the 4G era, together with you.

On December 4, 2013, the Ministry of Industry and Information Technology formal

issued the business license of LTE / fourth-generation digital cellular mobile communication services, marking China's mobile communications into the 4G era. Not only brings faster 4G network speeds, but also contains unlimited possibilities about the new form of mobile Internet industry.

China Mobile thinks the meaning of "sustainable development" is in close cooperation with stakeholders, blend the economic, social and environmental responsibility into the corporate strategy and business activities, In the same time to manage their social impact effectively, China Mobile should create and share the maximum value with the stakeholders, and enabling enterprise and stakeholders can sustainable development in the aspects of economic, social and environment aspects.

Sustainable development is closely connected with China Mobile's own strategy. From 2011 to 2015, the company take a "International leading, and achieve sustainable development" as the goal, the full implementation of "sustainable development strategy", using the "China Mobile is changing our life" strategic vision as a guide, focusing on meeting the different expectations of such as shareholders and investors, government and regulatory agencies, employees, value chain partners, customers, communities and the environment. Three strategic priorities for the sustainable development of the company are: A more robust China Mobile, more satisfied stakeholders and better future of information technology in order to create and share a bright future for sustainable development.

3.3 The Description of Basic Data of China Mobile

In this section, we will show the simplified financial statement of China Mobile Limited from 2009 to 2013 in table 3.1, table 3.2 and table 3.3, as we know, the data of common size analysis and financial ratio analysis are all come from the financial statement, therefore it is necessary for us to understand the basic data information about China Mobile.

3.3.1 The Simplified Balance Sheet of China Mobile

We know the basic structure of balance sheet which are illustrate in chapter 2, therefore the simplified balance sheet of China Mobile is shown in table 3.1.

Table 3.1 the Simplified Balance Sheet of China Mobile From 2009 to 2013

Balance Sheet	2009	2010	2011	2012	2013
Non-current assets	464,013	540,053	569,873	605,516	700,203
Current assets	287,355	321,882	382,685	446,593	467,189
Inventories	3,847	4,249	7,944	7,195	9,152
Accounts receivable	6,405	7,632	9,165	11,722	13,907
Deposits with banks	185,613	204,803	246,687	331,997	374,977
Cash and cash equivalents	78,894	87,543	86,259	70,906	44,931
Current liabilities	209,805	255,630	273,244	297,796	370,913
Accounts payable	95,985	111,646	116,266	123,896	173,157
Bills payable	642	502	1,616	1,159	1,360
Deferred revenue	35,573	43,489	51,753	57,988	61,789
Accrued expenses and other payables	69,335	85,716	92,362	103,774	125,811
Obligations under finance leases	68	68	68	68	68
TOTAL EQUITY	507,634	577,403	650,419	725,309	790,724
Total assets	751,368	861,935	952,558	1,052,109	1,167,392
Total Liabilities	175,876	226,728	244,349	268,792	365,158

Value: million CNY

Sources: China Mobile annual financial report (2013) with own adjustment

The full original version of "consolidated balance sheet" can be found in the Annex 3.

3.3.2 The Simplified Cash Flow of China Mobile

We know the basic structure of cash flow which is illustrate in chapter 2, so the simplified cash flow of China Mobile is shown in table 3.2. It can help us calculate the horizontal common-size with relative change.

Table 3.2 the Simplified Cash Flow of China Mobile From 2009 to 2013

Cash Flow	2009	2010	2011	2012	2013
Operating activities					
Operating Cashflow before changes in working capital	238,629	247,191	261,408	262,215	249,003
(Increase)/decrease in inventories	-353	-457	-3,492	436	-2,156
Increase in accounts receivable	-3,945	-5,232	-4,865	-7,063	-7,273
Increase in accounts payable	2,598	5,704	651	5,443	5,372
Cash generated from operations	250,062	270,247	266,834	275,292	268,207
Tax paid	-42,939	-38,868	-40,078	-44,583	-43,222
Net cash generated from operation activity	207,123	231,379	226,756	230,709	224,985
Investing activities					
Capital expenditure	-115,314	-113,203	-123,331	-123,232	-138,997
Land lease prepayments	-1,361	-1,135	-1,083	-1,792	-1,044
Increase in deposits with banks	-54,780	-19,190	-41,884	-85,310	-42,980
Net cash used in investing activities	-165,927	-171,572	-169,356	-191,176	-171,475
Financing activities					
Net cash used in financing activities	-49,774	-51,051	-58,420	-54,897	-79,431
Net increase/(decrease) in cash and cash equivalents	-8,578	8,756	-1,020	-15,364	-25,921
Cash and cash equivalents at beginning of year	87,426	78,894	87,543	86,259	70,906
Effect of changes in foreign exchange rate	46	-107	-264	11	-54
Cash and cash equivalents at end of year	78,894	87,543	86,259	70,906	44,931
					Value: million CNY

Sources: China Mobile Annual financial report (2013) with own adjustment

The full original version of "consolidated cash flow" can be found in the Annex 2.

3.3.3 The Simplified Income Statement of China Mobile

We know the basic structure of income statement which is illustrate in chapter 2, so the simplified income statement of China Mobile is shown in table 3.2. Through the data from simplified income statement, we can calculate horizontal and vertical common-size which are in part of income statement.

Table 3.3 the simplified income statement of China Mobile from 2009 to 2013

Income Statement	2009	2010	2011	2012	2013
Operating revenue (Turnover)					
Usage and monthly fees	300,632	312,349	364,189	368,025	391,372
Value-added services fees	131,434	151,435	139,330	166,348	199,439
Other operating revenue	20,037	21,447	24,480	26,040	39,366
	452,103	485,231	527,999	560,413	630,177
Operating expenses					
Leased lines	3,006	3,897	5,188	9,909	18,727
Interconnection	21,847	21,886	23,533	25,140	25,998
Depreciation	80,179	86,230	97,113	100,848	104,699
Personnel	21,480	24,524	28,672	31,256	34,376
Other operating expenses	178,583	197,940	125,364	137,832	157,531
Total operating expenses	305,095	334,477	376,700	409,891	494,528
Profit from operations	147,008	150,754	151,299	150,522	135,649
Other net income	1,780	2,336	2,559	2,208	-
Non-operating net income	359	685	571	615	910
Finance costs	-1,243	-902	-565	-390	-331
Profit before taxation	153,836	159,071	166,582	171,300	158,579
Taxation	-38,413	-39,047	-40,603	-41,919	-36,776
NET PROFIT	115,423	120,024	125,979	129,381	121,803
TOTAL COMPREHENSIVE INCOME	115,465	119,889	125,439	129,359	120,864
					Value: million CNY

Sources: China Mobile annual financial report (2013) with own adjustment

The full original version of "consolidated income statement" can be found in Annex 3.

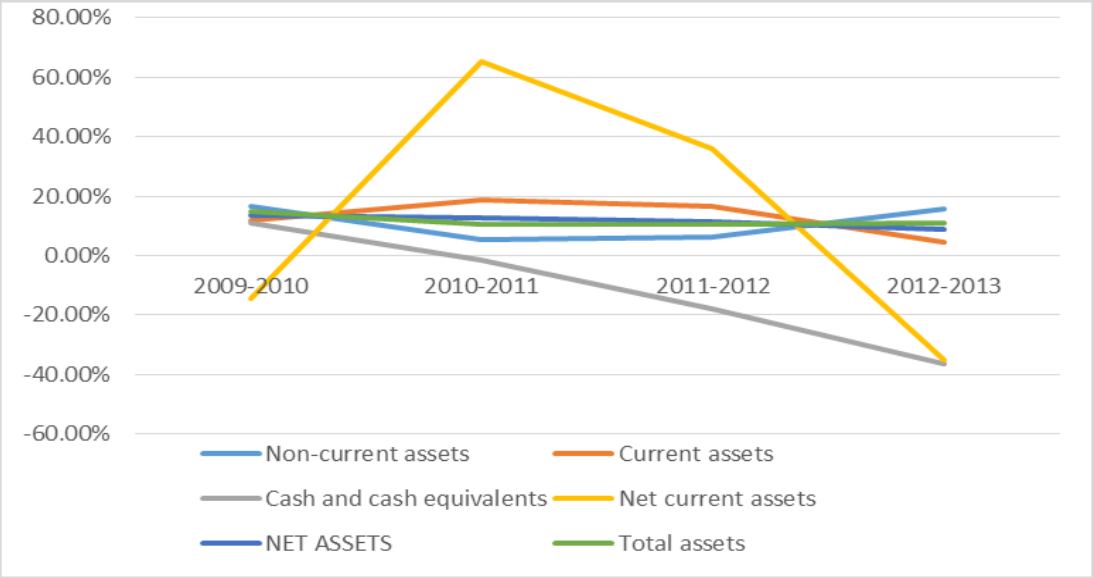
3.4 The Common-size Analysis of China Mobile

Based on the information of simplified financial statements, we will describe the common-size analysis which can be divided into two parts: horizontal analysis and vertical analysis. In this chapter, we will introduce the common-size analysis of financial statements of China Mobile Limited from 2009 to 2013.

3.4.1 The Horizontal Analysis

In horizontal common-size analysis, we use the pervious year as the benchmark and then restate all subsequent years relative to the pervious. We will compare the data from 2009 to 2013 to do the horizontal common-size analysis.

Chart3.1 Horizontal Common-Size Analysis of Balance Sheet (Assets)



From Chart 3.1, we can see there is a huge fluctuation in the net current assets, from 2009 to 2013, the highest point of net current assets is more than 60 % between 2010-2011, because in 2010 China Mobile's short-term assets had a biggest increase, and the relative change is the biggest compare with other years. It illustrated China Mobile had much more accounts receivables and got higher liquidity because of cash and cash equivalents were more and more. Corresponding with better liquidity, the paying of debt ability is stronger than other years.

Although the cash and cash equivalent was gradually enhance, the relative change was falling from 2009 to 2013, because in order to consolidate the leading position in the mobile communication market, China Mobile insist on doing the research and development of new creative products, continuous innovation, and paying for the current liabilities, the relative change is smaller and smaller. So this is the reason for decreasing of cash and cash equivalent from 2009 to 2013.

Chart3.2 Horizontal Analysis of Balance Sheet (Liabilities)

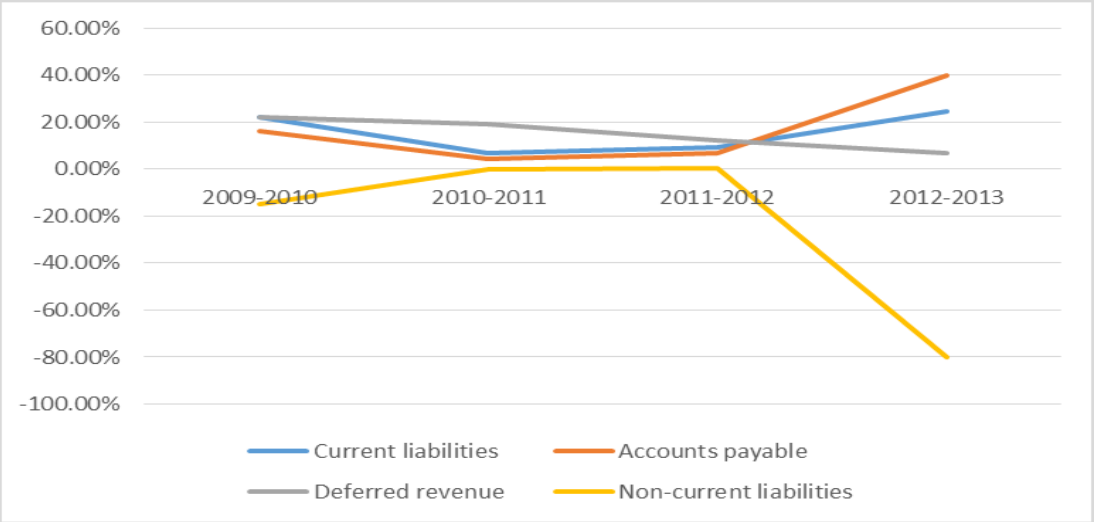
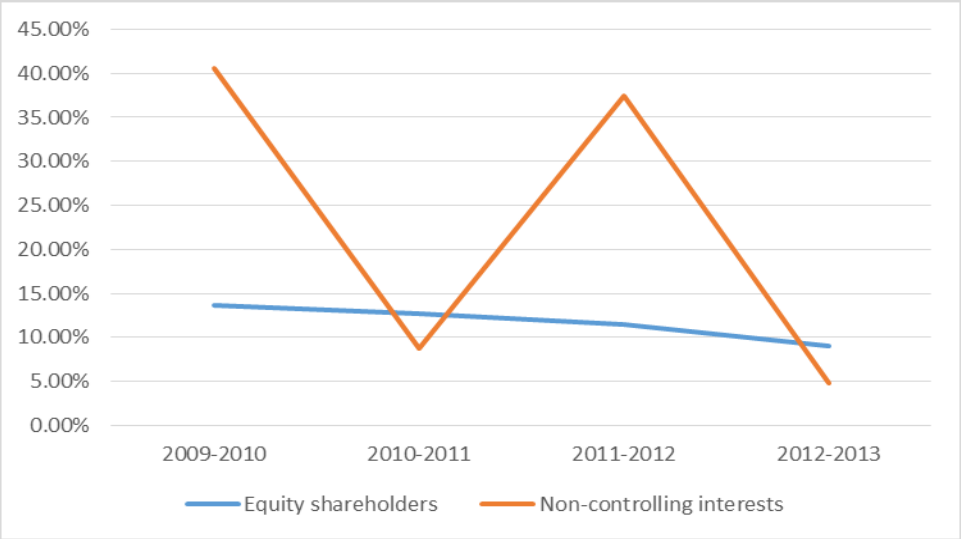


Chart 3.2 shows non-current liabilities is almost negative from 2009 to 2013, and it is even negative growth from 2012 to 2013, this is because the interest-bearing borrowing, deferred revenues and deferred tax liabilities were all negative, it means the account receivable increase, we can get some information from chart 3.1, cash and cash equivalents were decreased in order to pay some liabilities. We can deduce from the less amount of cash, China Mobile used money to pay its long-term liabilities and the performance is better for the decreased non-current liabilities.

We can see the current liabilities and accounts payable have the similar trend, accounts payable is the main part of current liabilities, if accounts payable changed, current liabilities will changed too. We can see from 2012 to 2013 accounts payable raised to 39.76%, this is because the increase of inventories and the corresponding increased purchase fee. Therefore current liabilities had the same increase tendency.

Chart3.3 Horizontal Analysis of Balance Sheet (Equity)



From Chart 3.3, we can see the non-controlling interest change widely from 2009 to 2013. In 2009, it reached 40 % but from 2010-2011 there is only below 10%, while between 2011 and 2012, the relative change is reached nearly 40% again, then from 2012 to 2013 it decreased sharply to 4.78%. It represented non-controlling interest only recorded a little of total equity, although it changed widely from 2009 to 2013, the influence to China Mobile's business is very small. Non-controlling interest is minority stockholder's equity, and there is fewer right for decision making to company. So the relative change is fluctuate widely but we can see the equity shareholders is stable.

Now we can see on the other hand, equity shareholders almost had no change, from 2009 to 2010 there was the highest shareholder's equity which reached 13.70% while the lowest was 9.03% between 2012 and 2013, the difference from 2009 to 2013 is very small based on the large basic number. There are some reasons for the small change. First is due to total equity attribute to equity shareholder is increased year by year, so the relative change is small between this five years. And the basic earns per share and the interest of share is very similar from 2009 to 2013, this is also one reason for stable shareholder's equity.

Chart3.4 Horizontal Analysis of Cash Flow Statement (Financial Activities)

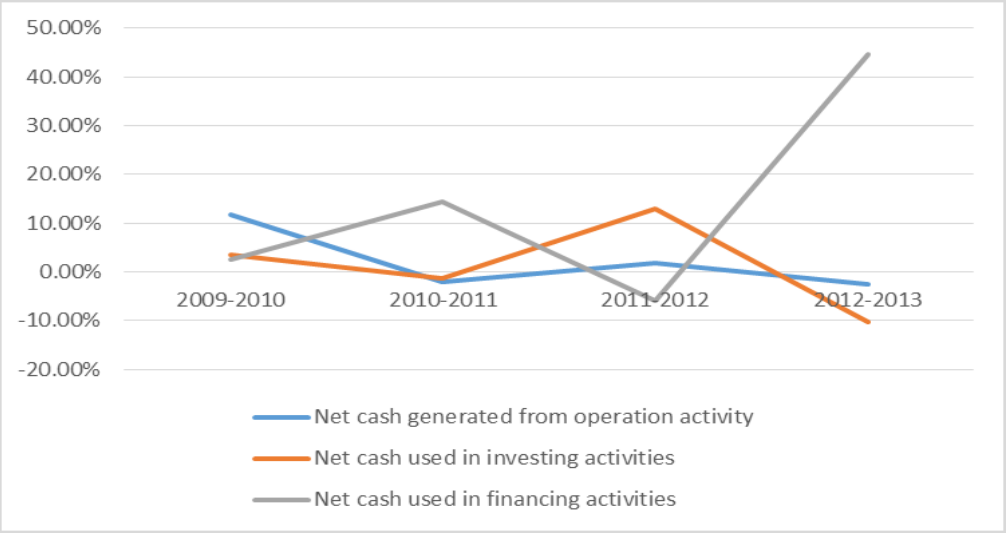
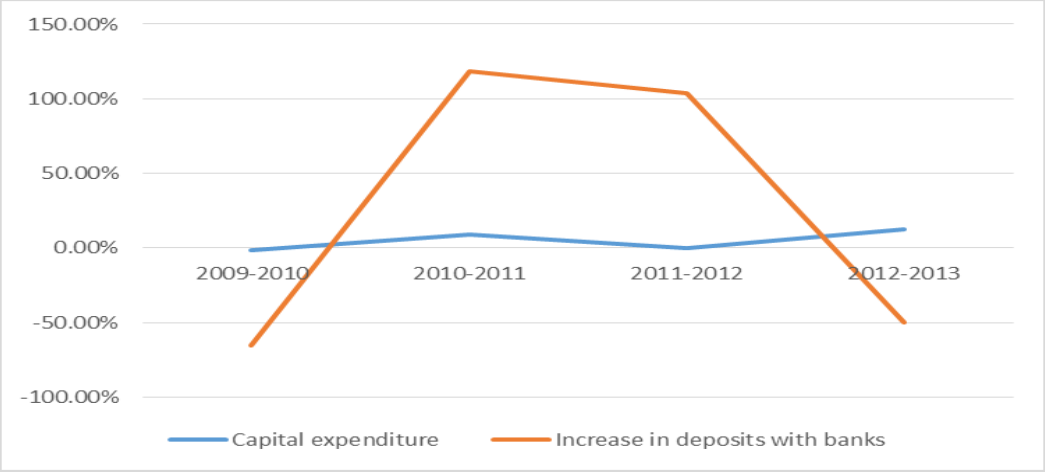


Chart3.4, we can see the net cash used in financing activities had a widely fluctuation, from 2009 to 2010, it was increased from 2.57% to 14.43%. And then turn to go down from 2010 to 2011, which have decreased 20.47% and only had -6.03% in 2011. But it have been increased again and rise to 44.69% from 2012 to 2013. We can see the difference between the highest point in 2013 and lowest point in 2011 was 50.72%. This is because in 2013 China Mobile received a lot of money from repayment of deferred, and in the previous four years China Mobile had no money from repayment of deferred. And in 2011 China Mobile had to repayment the bonds and other loans with 5330 million yuan, so there was a big difference between 2011 and 2013.

Chart3.5 Horizontal Analysis of Cash Flow Statement (Cash From Investment)



Looking at the chart 3.5, we find the variation of bank deposits is huge from 2009 to 2013. There was a sharply increase between 2010 and 2011 which was almost closed to 120%

and the net increase is approximately 180%. From 2011 to 2012, bank deposits of China Mobile kept steady but little bit decline and the whole level was above 100%. But in went to a large reduction from 2012 to 2013, at the end of 2013 there was only -49.62%. This is because in 2010 China Mobile's deposit increased a lot compared with 2009，there was an absolute change of 35590 million yuan. It means China Mobile get more liquidity and has higher ability to pay its liabilities. But in 2012 China Mobile spent a lot money for the construction of network, so there was a big variation.

Contrast with bank deposits, capital expenditures of China Mobile almost keep immobile from 2009 to 2013. Because China Mobile is one of the most biggest leading communication company, it created a lot of useful technique to help people can easily communicate with others, and in order to keep advance, get more good reputation, so China Mobile invested abundant funds for innovation and do the research and development of new products every year. This is the reason why China Mobile's capital expenditure is almost keep still from 2009 to 2013.

Chart 3.6 Horizontal Analysis of Income Statement (Operating Profit)

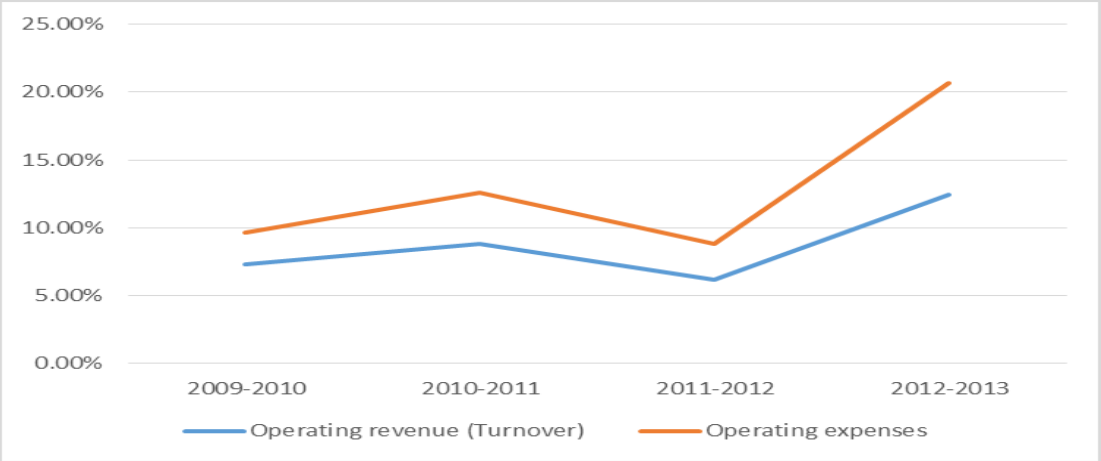
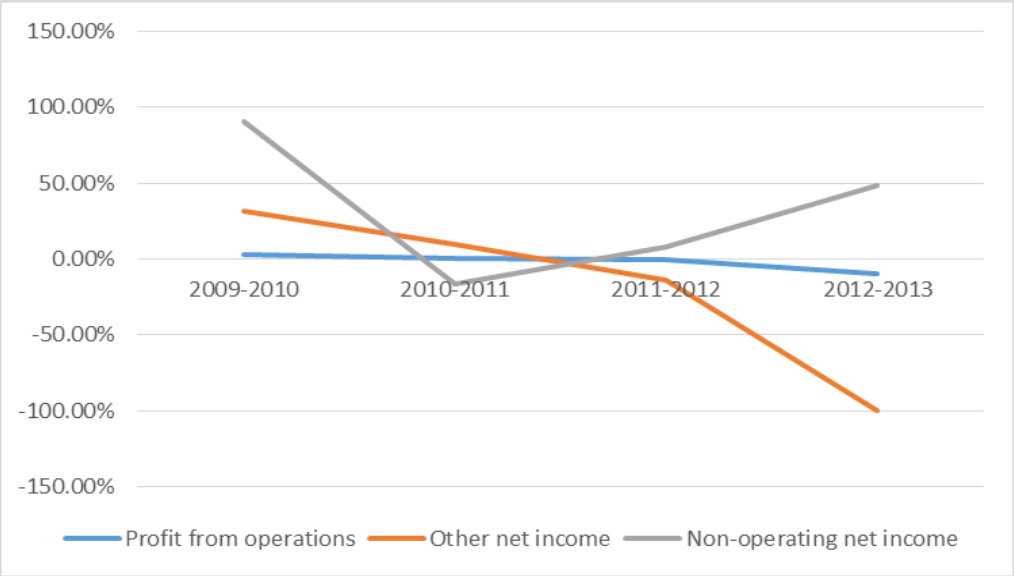


Chart 3.6 shows the changes of operating revenues and operating expenses, we can see the tendency of this two broken line is very similar, they both had a small increase from 2009 to 2010, and then went down slowly from 2010 to 2011, while got a bigger increase from 2012 to 2013. Operating revenue reached 12.45% and Operating expenses is higher 8.20% than operating revenue which is 20.65%. The operating revenues increased because every monthly usage fee gradually went up and the, these data indicate that China Mobile got more and more customers and the package business is very helpful for China Mobile's development. It also

represents the credit was getting better and better in the customers' mind,

The main reasons of operating expenses increased are interconnection, depreciation, personnel were all increased, and in 2013, the cost of product sold is 61 million yuan. In the previous four year, China Mobile had no cost of product because there is little products can be sold, but in 2013 this company improved its strategy and begin to sale contract mobile phone, this is also a big successful step for China Mobile, therefore the operating cost had increased.

Chart3.7 Horizontal Analysis of Income Statement (Net Income)



From chart 3.7, we can see the amount of non-operating net income changed widely, it decreased sharply from 90.81% to negative 16.64% from 2009 to 2010, and turn to go up in 2011. In these three years 2011 to 2013 it net increased 64.6%. This is because in 2010, the non-operating net income was higher than near year, but the difference between 2009 and 2010 was bigger than difference from 2010 to 2011, so the relative change from 2010 to 2011 was smaller.

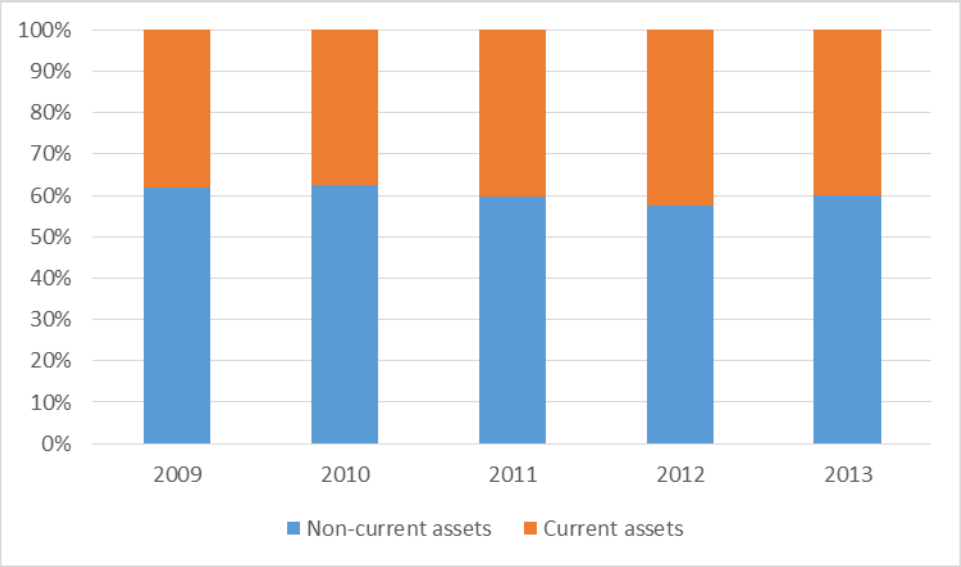
Profit from operation had almost no change from 2009 to 2013. This is because operating revenues and operating expenses had a similar trend, we can see it from chart 3.6. Hence, the difference between operating revenue and operating expenses was small, we can see the difference of operating revenue and operating expenses is profit from operation. This is the reason why profit of operations had little change.

3.4.2 The Vertical Analysis

Another form of common-size analysis is vertical common-size analysis, and it is the

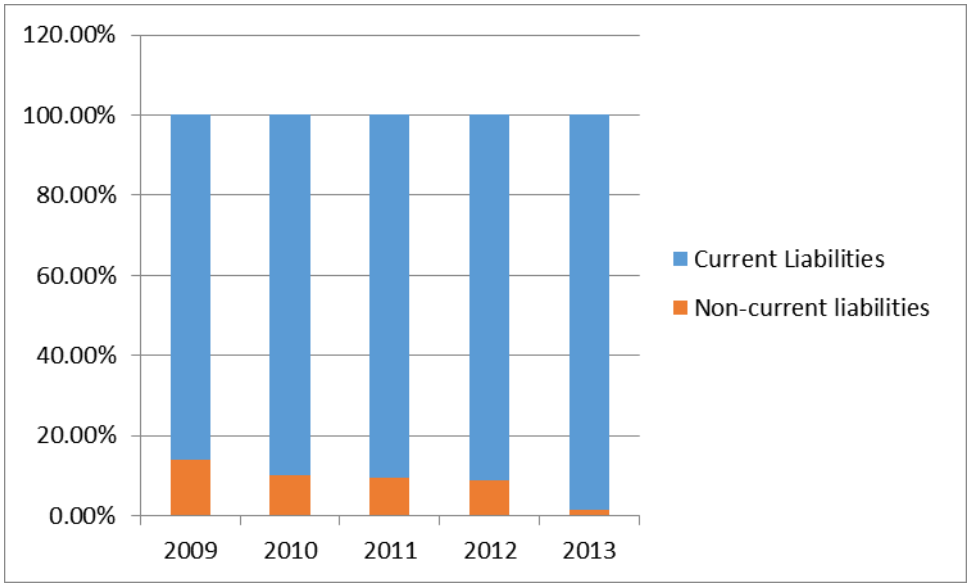
most common form. We can compare the accounts in a given period to a benchmark item in that same year.

Chart 3.8 Vertical Analysis of Balance Sheet (Total Assets)



From chart3.8, we can see the structure of total assets, which include current assets and non-current assets. From 2009 to 2013, the amount of money in non-current assets and current assets' difference is not very big. This is because China Mobile's financial situation is in a very healthy level. We can see in 2009, China Mobile's current and non- current assets were 23.51%, which is the biggest distinction. In 2012 there was only 15.11% difference from these two current and non-current assets. We can see from chart 3.8 from 2009 to 2013, non-current assets had higher proportion than current assets, which indicated China Mobile's liquidity was limited, there is no enough current assets such as cash. On the whole, the current assets of China Mobile had the tendency of increase, so we can see this company has a comparative healthy financial situation.

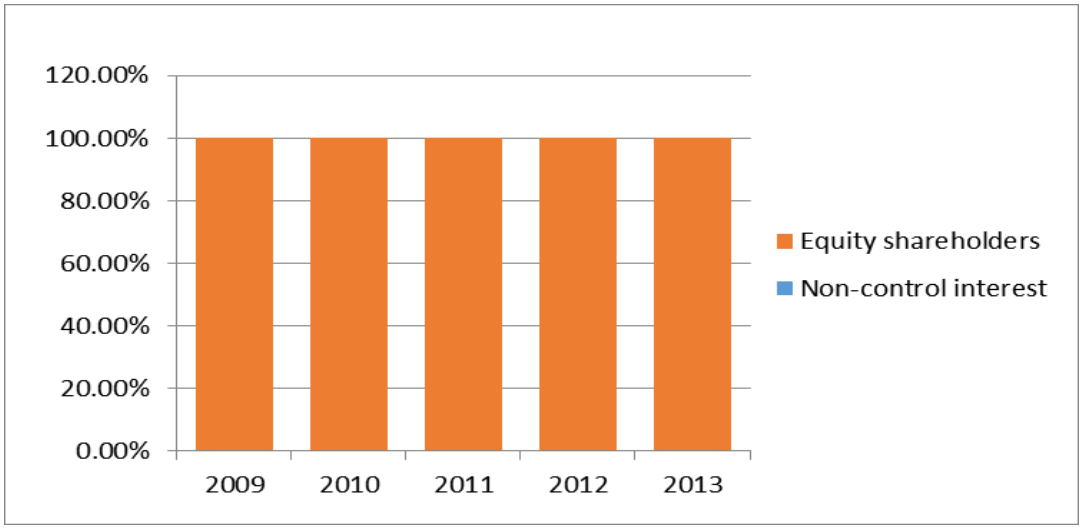
Chart3.9 Vertical Analysis of Balance Sheet (Liabilities)



From chart 3.9, we can clearly find that all non-current liabilities have decreased year after year and current liabilities kept gradual increase from 2009 to 2013, we can obviously see the current liabilities made a major part of liabilities. The current liabilities are more than 80% every year, in 2013 it even had the 98.47% proportion of total liabilities. The main reason is accounts payable and deferred revenue of China Mobile increased a lot. This is good for a company, because company can use other individual or companies' assets with no interest. But there also is some disadvantage, China Mobile use a lot money to develop and research the new products and purchased a lot of new equipment, which lead to China Mobile is unable to pay for the payment to supplier, and can reduce the reputation.

And there is another reason that we can see from chart3.9, long-term liabilities of China Mobile was decline gradually. The non-current liabilities in 2013 have been decreased by 12.39% from the peck in 2009, hence there was such a high proportion of current liabilities on total liabilities.

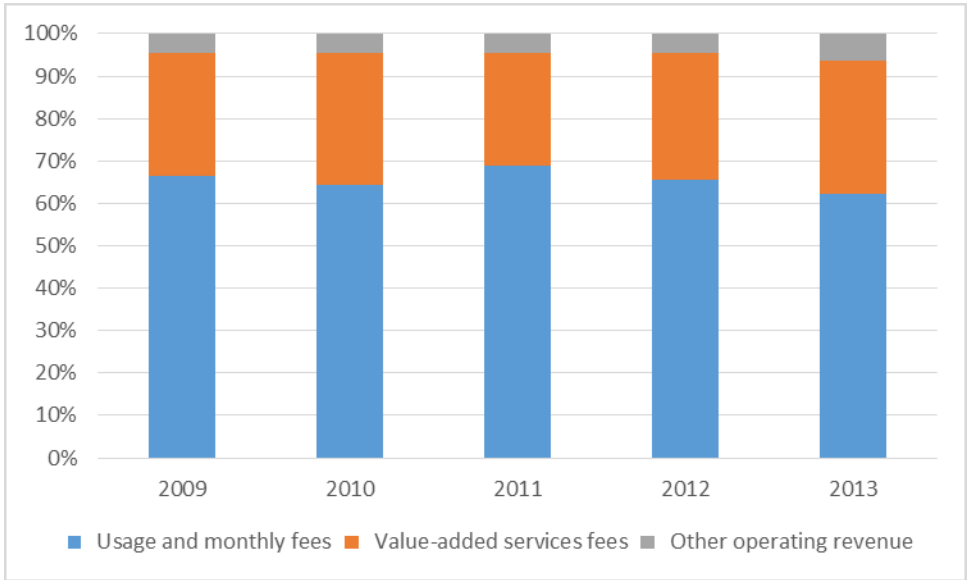
Chart3.10 Vertical Analysis of Balance Sheet (Equity)



From Chart 3.10, we can almost only see the total equity attributable to equity shareholders of the Company, non-controlling interest could be ignored. This is because for a company, shareholders play a very important role. Shareholders hold company's stock, they have the rights to get equity, which has big influence for a company's performance.

And non-controlling interest is less, in general, minority stockholder's interest had almost no influence for a company's business and can't make any decisions for the development of company. This is the reason why non-control interest is so little and could be neglect.

Chart3.11 Vertical Analysis of Income Statement (Operating Revenue)

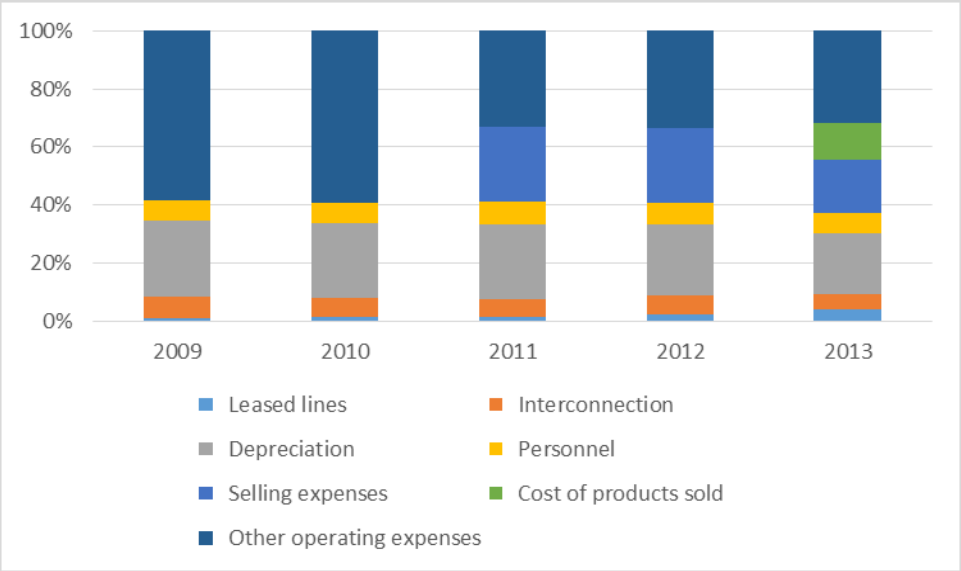


As we can see in the chart 3.11, China Mobile's operating revenue includes usage and monthly fees, value-added services fees and other operating revenue. Usage and monthly fees had the highest proportion of total revenue, it was more than 60% and kept fluctuation within

a narrow range. In 2011 it reached the peck 68.98%, and in 2013 it arrived to the lowest point which was 62.11%. The difference of the top and button point was only 6.87%. This situation told investors China Mobile have a good financial situation and the status is very stable. China Mobile persist in bring us a better network of 3G and provide the 4G network, customers are more and more depend on China Mobile, so the monthly fee can keep stability change.

The value-added services fee was accounted approximately 30% of total revenues. This is also one important part for China Mobile's development, it include some short message service multimedia message and music on demand services. These functions can abundant people's life and it is necessary for China Mobile to expand the market. Therefore the value-added services had the about 30% of total revenues.

Chart3.12 Vertical Analysis of Income Statement (Operating Expenses)



From chart3.12, we can see the structure of operating expenses, which include seven parts. We can see the depreciation got about 25% proportion on total expenses. This is because electric wire had damage every year and some equipment can be depreciation.

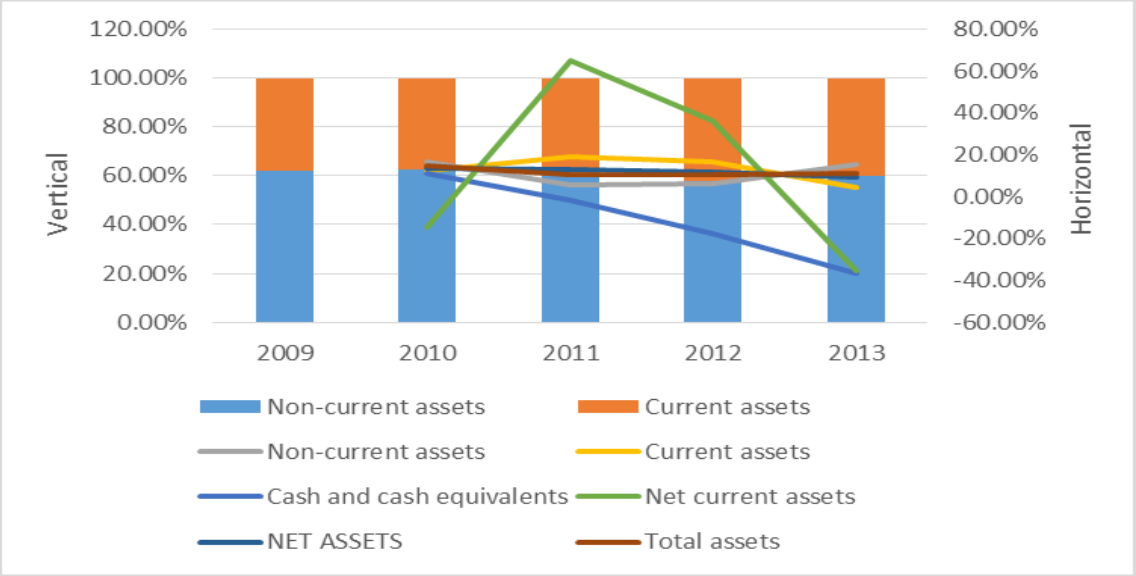
Next we will focus on analysis of personnel. From 2009 to 2013, personnel had about proportion of 7% every year, but from 2009 to 2011, it kept the steady growth. And from 2011 to 2013 it was gradually decrease. This is because with the development and grow from 2009 to 2011, China Mobile need more employees to help it to increase returns and work efficiency. While from 2011 to 2013, the status of China Mobile was stable, so there was not necessary to

increase more and more employees in order to make full use of company resources. And the absolute change was smaller and smaller from 2011 to 2013, which can improve the competition of staff. This is the reason why personnel of China Mobile increased from 2009 to 2011 and decreased from 2011 to 2013, but on the whole is stable. It is good for improve the efficiency and company's development.

3.5 Vertical-horizontal Analysis

In this section, we will combine vertical and horizontal analysis, which can help us analyze its relative change and absolute change in the same chart, and compare the evolution. We will focus on the vertical and horizontal analysis of assets, equity and liabilities in balance sheet.

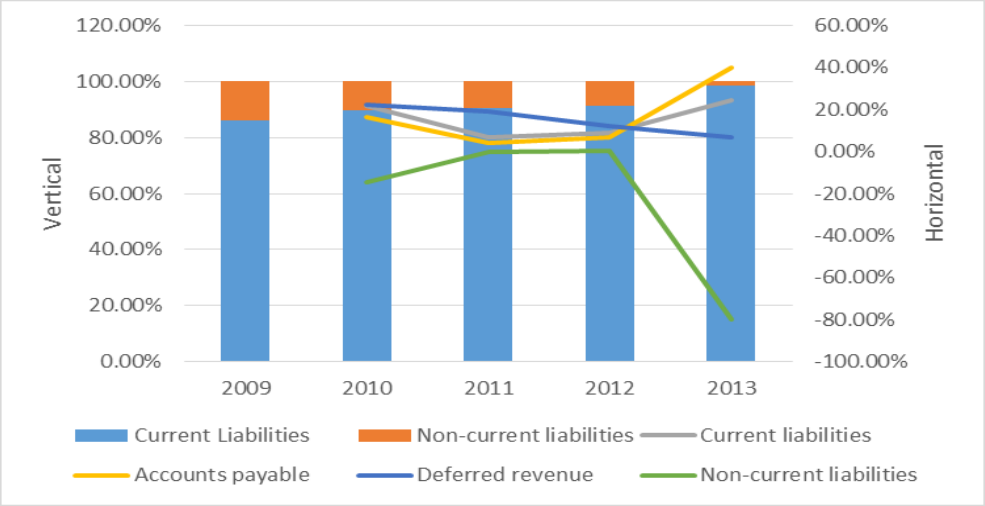
Chart 3.13 Vertical-horizontal Analysis of Balance Sheet (Assets)



Through chart 3.13, we can see there are some main types of assets, which include non-current assets, current assets, cash and cash equivalents, net current assets, net assets. These different assets can help us understand China Mobile's assets structure and operation situation.

At the side of relative change, net current has a big fluctuation and cash and cash equivalents goes downward sloping from 2009 to 2013. At the absolute change side, the difference between non-current assets and current assets keeps is around 20% and at a stable level.

Chart 3.14 Vertical-horizontal Analysis of Balance Sheet (Liability)

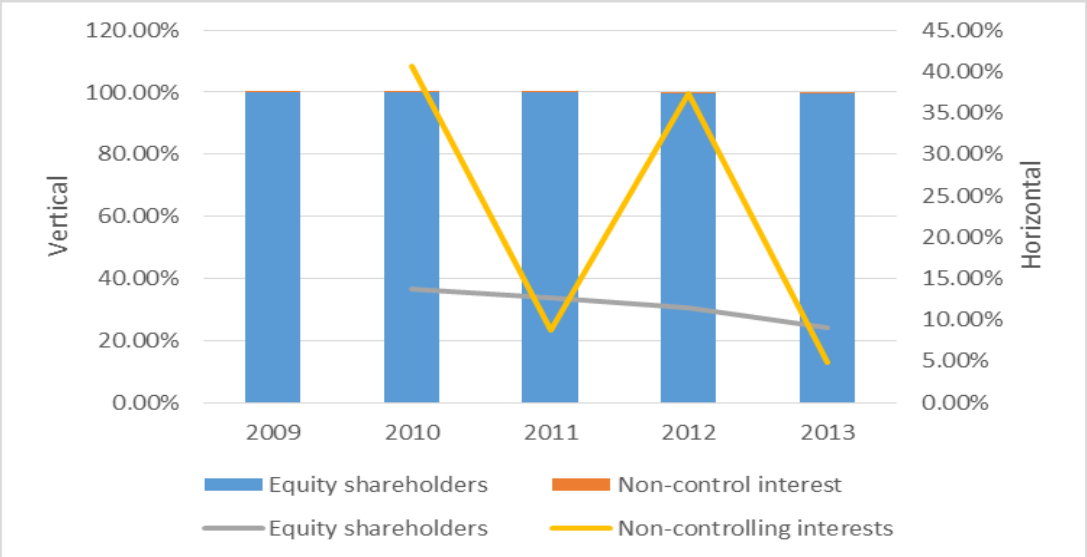


From chart 3.14, we can see the current liabilities and non-current liabilities of China Mobile. Current liabilities involve accounts payables, deferred revenue.

At the relative change side, non-current liabilities gradually goes up from 2009 to 2013, but between 2012 and 2013, it has a sharply decrease from the highest point 0.38% to the lowest point -80.16% Accounts payable and current liabilities has the similar trend because accounts payable is main component part of current liabilities.

At the absolute change side, current liabilities is much more higher than non-current liabilities, and the difference is bigger and bigger from year by year. This is because accounts payable and deferred revenue increased a lot. It can be good for a China Mobile, because with more current liabilities means there is less interest should to pay.

Chart 3.15 Vertical-horizontal Analysis of Balance Sheet (Equity)



From chart 3.15, we can see equity includes non-control interest and equity of shareholders.

At the side of absolute change, non-control interest only occupy little proportion of equity, non-controlling interest is minority stockholder's equity, and there is fewer right to China Mobile's decision making. Contrast with non-control interest, equity of shareholders record most proportion of equity, and it keep stale.

At the side of relative change, non-control interest has widely changed, but the equity of shareholders almost has no fluctuation, this is because shareholders equity always keeps in a stable level, but non-control interest is unsure.

3.6 Summary of Financial Position Characteristics of China Mobile Limited

In chapter 3, we have a full understanding about China Mobile's basic information. We introduced the basic data and sustainable development of China Mobile. Through analyze these financial data from simplified financial statement, we can see China Mobile Faced with continuous improved penetration, increasingly competitive pressures, and the challenge to the traditional communications from internet business, China Mobile overcome various difficulties, grasp the four network and get implementation of four network develop together, around the three major driving force of stock management, traffic management and customers management, efforts to deepen the quality, service and innovation to maintain market leadership position, and operations management has higher level.

4. Analysis of Activity and Solvency of the Chosen Company

According to the previous part, we can understand the detail methodology and the data of financial statement. So in this chapter, we will introduce the financial ratio analysis and the pyramidal decomposition analysis of China Mobile Limited in order to analyze the financial situation of the company.

4.1 Financial Ratio Analysis

In this chapter, we will analyze financial ratios, which are including four parts activity ratio, solvency ratio, liquidity ratio and profitability ratio. But in this thesis, we will focus on activity ratio and solvency ratio analysis. And then we will compare this two ratio with other competitor company from 2009 to 2013, which can help us compare the benefits and risk of different companies. This is necessary for investor and creditor to making rational decisions.

4.1.1 Activity Ratio Analysis

Activity ratio can help us to know how well a company use its assets, the utilization of assets. And there is a direct bad impact on liquidity if we don't use the assets efficiently.

Table 4.1 Activity ratio of China Mobile Limited

Year	2009	2010	2011	2012	2013
Accounts receivable turnover	70.59	63.58	57.61	47.81	45.31
Total assets turnover	0.60	0.56	0.55	0.53	0.54
Payable turnover	4.71	4.35	4.54	4.52	3.64
Current assets turnover	1.57	1.51	1.38	1.25	1.35

As we can see from the Table 4.1, activity ratio includes average collection period, accounts receivable turnover, total assets turnover, payable turnover and current assets turnover ratio. In order to calculate these ratios, we will use equations (2.6), (2.7), (2.8), (2.9) from chapter 2. And all of these ratios can help us to know each asset can bring how much benefits.

We will compare each ratio with the other two companies in the same industry:

Table 4.2 Activity Ratio of China Telecom Limited

	2009	2010	2011	2012	2013
Accounts receivable turnover	12.01	12.69	13.27	15.08	16.06
Total assets turnover	0.49	0.52	0.58	0.52	0.59
Payable turnover	6.10	5.49	5.52	4.11	3.96
Current assets turnover ratio	3.44	3.98	4.11	4.33	6.09

We can see from table 4.2, some activity ratio about China Telecom Limited, we calculate these ratios in order to compare with China Mobile and analyze the advantage and disadvantage of each company.

Table 4.3 Activity Ratio of China Unicom Limited

	2009	2010	2011	2012	2013
Accounts receivable turnover	17.44	18.42	18.33	18.10	19.88
Total assets turnover	0.37	0.39	0.46	0.48	0.56
Payable turnover	1.48	1.75	2.20	2.29	2.89
Current assets turnover ratio	5.03	4.05	5.39	5.17	5.65

From table 4.3, we can get some information of China Telecom Limited's assets management, which is useful for us to know whether the assets is efficiency utilization. And compare with China Mobile can help itself improve some operating drawbacks.

Chart 4.1 Accounts Receivable Turnover of Communication Industry Companies

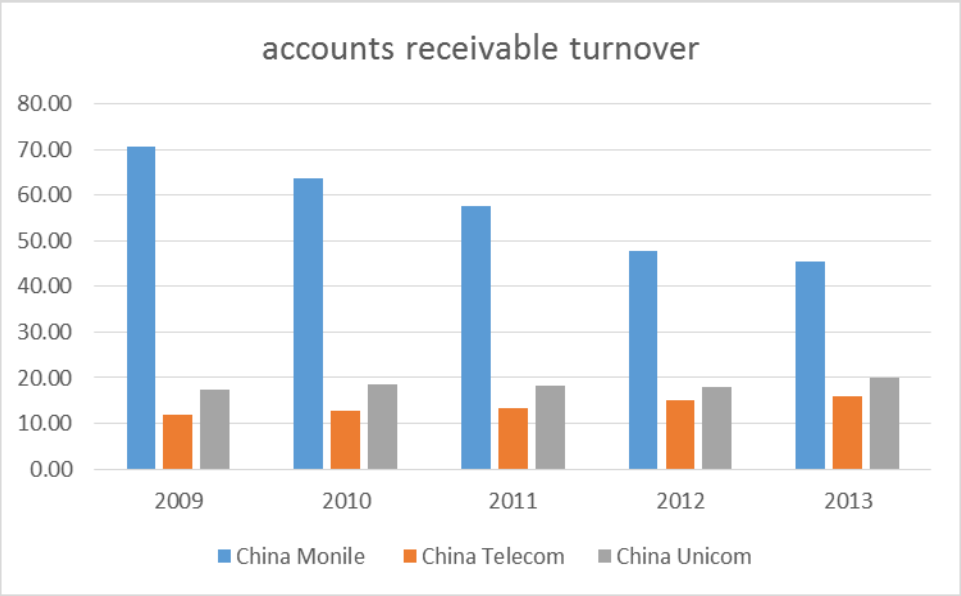


Chart 4.1 shows accounts receivable turnover of these three companies, we can immediately find there was the highest ART of China Mobile than other two companies, in

2009 receivable turnover got top point 70.59, which means there was 70.59 times the receivables roll over during one year. But from 2009 to 2013, it was gradually went down. In 2013, receivable turnover of China Mobile only had 45.31, compare with 2009 it relative decreased 35.8%. This data means China Mobile have to use more days to collect company's receivables and the ability of converting accounts receivables into cash was drop. In other words, in 2009 China Mobile can got its receivable only about 5 days, the average collection period was short. And with decreasing of receivable turnover, the average collection period was longer than previous years, in 2013 if China Mobile wants to collect its receivables, it had to spend about 8 days. Why receivable turnover of China Mobile has reduced a lot in these years, it is because in 2013 China Mobile began to sell smart mobile phone such as i-phone, we can see from balance sheet statement in 2013, there were a lot of costs of products. And China Mobile in order to encourage consumer consumption, they can according to its own situation choose installment payment. This is the reason why ART decreased about China Mobile.

Compare with China Mobile, China Telecom and China Unicom had lower ART. We can give an example in 2010. For China Mobile, it had receivable turnover of 63.58, and for China Telecom and China Unicom it respectively are 12.69 and 18.42, which represent if this two companies want to collect its accounts receivable, they should spent much more days than China Mobile. At the same time, the losses of bad debt was higher and ability of paying short-term debt was weaker than China Mobile because China Mobile can get the receivables faster and the ability of converting receivable into cash is higher, which means it has better assets efficiency utilization.

Although ART of China Mobile has reduced year by year, it is still keeping in the normal level. If this ratio is too low in the next few years, the company should reappraise its credit policies, in order to ensure timely collection of credit sales and avoid loss benefits. For this reason, China Telecom and China Unicom should improve the efficiency of ART.

Chart 4.2 Total Assets Turnover of Communication Industry Companies

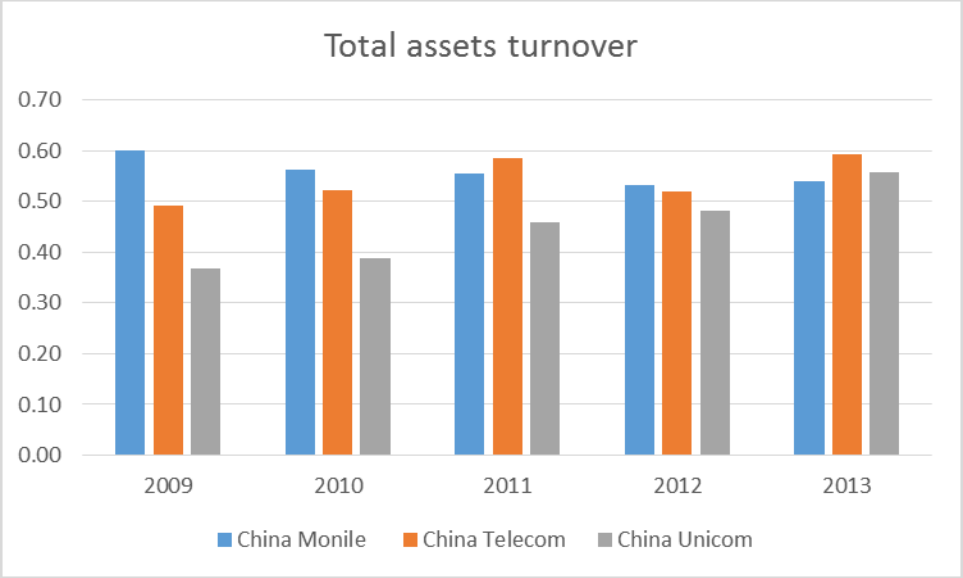


Chart 4.2 shows the differences of these three companies are getting smaller. In 2009 and 2010, China Mobile has the largest TAT, but in 2011 and 2013, China Telecom exceeded China Mobile and become the biggest.

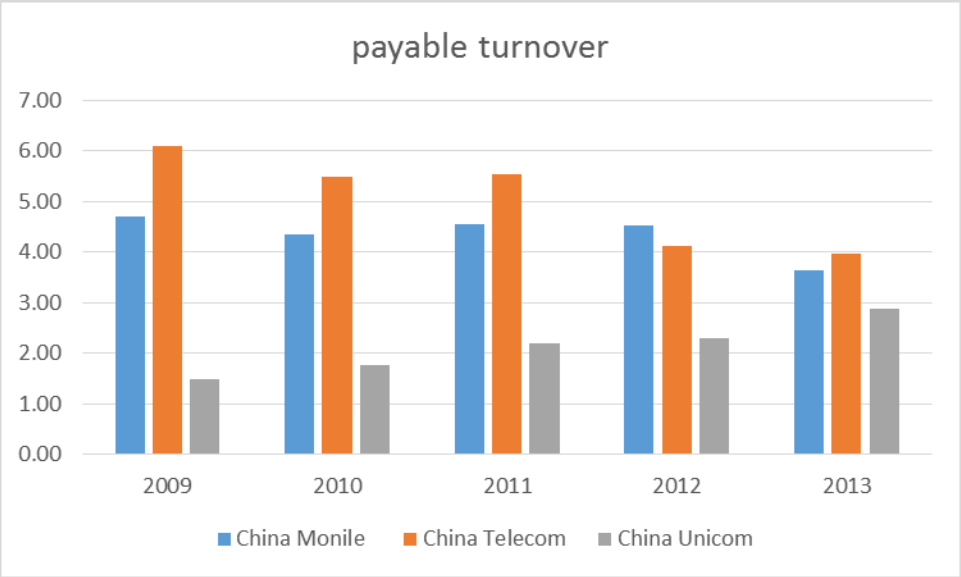
The level of TAT represents an efficiency ratio which can tell us how successfully the company using its assets to generate revenue. In 2009, the TAT of China Mobile is 0.60, it means each unit invested in assets can generate revenues of 0.60 in 2012. TAT went down to 0.54 which means there was fewer revenues engendered. So in general, if a company has a higher TAT level, it is much better than lower. For this situation, we can see China Mobile became less utilization efficiency for its company assets.

We can find in 2011, TAT of China Telecom was raised and reached 0.58, even surpassed China Mobile's 0.55. The reason for this situation is the cooperation of China Telecom with internet company was further and the development of internet business. Through this situation, China Telecom would invest more funds in internet such as 2G and 3G network, and revenues from this invest will be higher. Based on the comparison of China Mobile and China Telecom, we can say in communication industry, the competition is more and more competitive, this is the reason why China Mobile persist in innovation and do the research and development of new products.

In 2012, these three companies' difference is the minimum, it is good for industry competition and promote communication industry progress. Because the utilization of assets is efficiency and companies can meet its liabilities and pay for the wages.

We can find from 2009 to 2013, the tendency of China Mobile's TAT is fall on the whole. This company should try to increase its TAT, because assets turnover has big influence for a company's production management. When a company has higher TAT, they will have more capital to produce new products and reduce bank loans. If China Mobile want to rise up its TAT, they can decrease inventory in order to get more funds and satisfy the demand of normal operation.

Chart 4.3 Payable Turnover Ratio of Communication Industry Companies

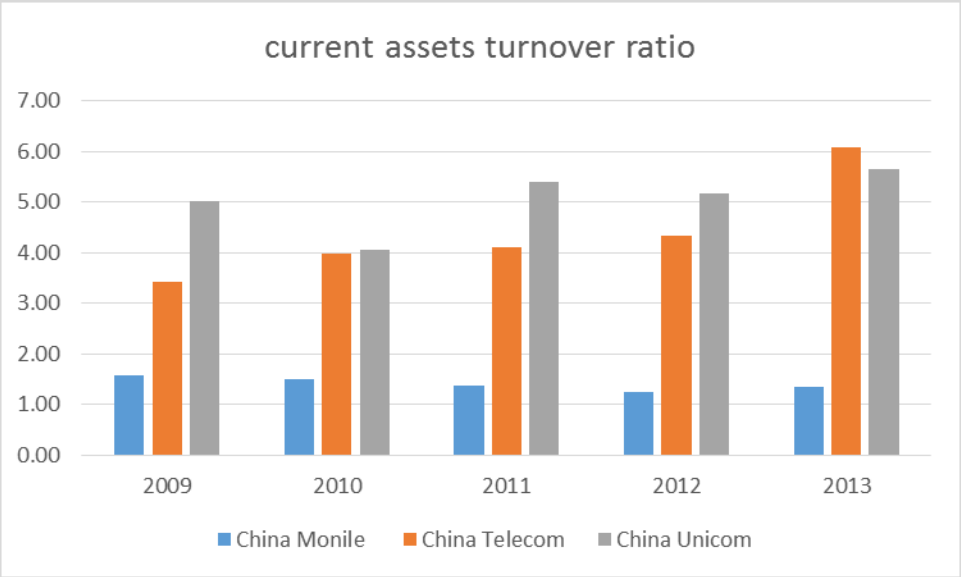


From Chart 4.3, we can see these three company's PT distinction was more and more close to each other's from 2009 to 2013. In 2009, payable turnover of China Mobile was 4.71 and it kept relatively narrow fluctuation around 4.00, the biggest distinction was 1.07 from 2009 to 2013. In 2013, PT decreased 22.7% than 2009. It means that China Mobile get more days to pay for its debt. In other words, this company can occupy more loans from suppliers to supplement working capital, then there is little requirement of short-term borrowing from bank, which represent its market position has increased. But PT is not the lower the better, if a company's payable turnover is too lower, it have to take more repayment pressure. From chart 4.3, we can see China Unicom's PT is always the lowest between these company, but has tendency of gradual going up, this because China Telecom found although lower PT can get more suppliers debt and the days of paying liabilities is longer, the pressure of repayment is too high which also can lead to a company's operation ability worse.

It is obviously for us to find that China Telecom and China Mobile's PT both reduced.

Why this happened, it is because China Mobile spent a lot of money for the construction of communication networks and transmission network, and China Telecom increased capital of investment, the expenditures increase is mainly due to the acquisition of mobile network assets by the end of 2012, China Telecom need to bear the mobile network investment. Both company's behavior demonstrate their market positions are more and more important. So the PT ratio went down, it implies these two companies have longer time to pay their supplier. And in 2013, the difference of PT kept minimum, which indicated industry development is more and more balanced.

Chart 4.4 Current Assets Turnover of Communication Industry Companies



As we can see from Chart 4.4, China Mobile had the lowest CAT than other two companies and kept stable change, from 2009 to 2013 the CAT closed to 1.4, because the current assets of China Mobile is approximately other companies nine times. It is not a good situation for China Mobile. As we know, current assets can be easily converted into cash and have a high liquidity, in other word, China Mobile hold a lot of current assent which represent it cannot make a good profit from investment, they need add the amount of current assets to enter into turnover. And the CAT is low, there is not a good efficient use on current assets. For this consideration, China Mobile can improve its utilization efficiency of current assets in order to enhance the profitability.

Contrast with China Mobile, China Telcom's CAT was higher which was closed to 5. The higher CAT means China Telecom's current assets have quickly turnover, at the same time the number of turnover days is reduced. It indicated this company can save funds and

improve the utilization efficiency of funds. Current assets turnover ratio can promote enterprise to strengthen their internal management such as reduction of cost.

In 2013, there is a biggest difference about CAT among these three companies, because in this year China Telecom and China Unicom's total revenue have increased, which represent both these two companies had a better utilization on current assets, and China Mobile still not solve the problem of wasting funds.

4.1.2 Solvency Ratio Analysis

In this section, we will do the solvency ratio analysis. Sometimes it also can be called financial leverage ratio. Solvency ratio measures company's ability to meet its long-term obligation. We use solvency ratio to estimate a company's financial risk level. As we introduced before, solvency ratio includes debt ratio, debt to equity ratio and interest coverage.

From formula 2.10, 2.11 and 2.12, we can know how to calculate the solvency ratio about a company.

Table 4.4 Solvency Ratio of China Mobile Limited

	2009	2010	2011	2012	2013
Debt ratio	32.44%	33.01%	31.72%	31.06%	32.27%
Debt to equity ratio	48.01%	49.28%	46.45%	45.06%	47.64%
Interest coverage	3.83	3.86	3.73	3.59	3.69

We can see from table 4.4, solvency ratio includes debt ratio, debt to equity ratio and interest coverage. All of these ratios can help us measure company’s ability to meet its long-term obligation.

We will compare each ratio with the other two companies in the same industry.

Table 4.5 Solvency Ratio of China Telecom Limited

	2009	2010	2011	2012	2013
Debt ratio	47.81%	41.47%	38.71%	51.20%	48.70%
Debt to equity ratio	91.60%	70.86%	63.16%	104.92%	94.94%
Interest coverage	4.98	4.84	4.46	4.46	5.07

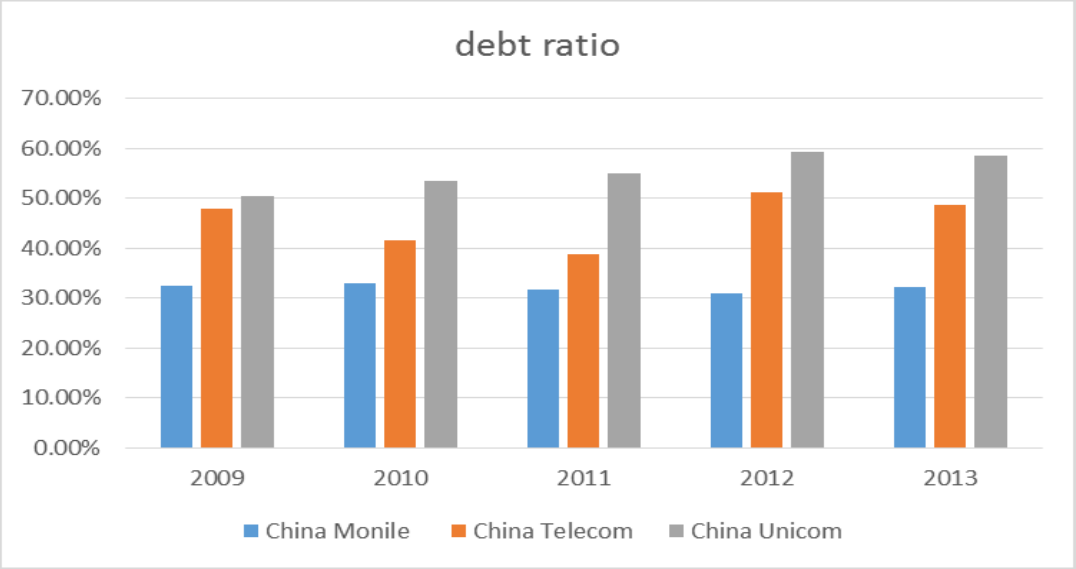
From table 4.5, we can get some information of China Telecom's solvency ratio evolution, and estimate its financial situation. These data will be used to compare with other companies in the same industry.

Table 4.6 Solvency Ratio of China Unicom Limited

Debt ratio	50.49%	53.39%	54.87%	59.41%	58.63%
Debt to equity ratio	101.99%	114.56%	121.58%	146.35%	141.74%
Interest coverage	4.51	5.19	4.08	3.93	4.15

From table 4.6, we can see there are some data of China Unicom's solvency ratio. Through compare these data with other company, we can know each company's advantages and disadvantage, it is useful for us to estimate a company's ability to repay its long-term obligations.

Chart 4.5 Debt ratio of communication industry companies



From Chart 4.5, we can know China Unicom had the highest debt ratio, and was gradually rising from each year. In 2012, there was about 60% proportion of the company's assets is financed by liabilities, which can put itself into a risk of not be able to pay its debt back. And with the high proportion financed by debt, China Unicom is obligate for the interest paid and repaying the promised principal. For this situation, China Unicom once paid all the liabilities, its current assets will be decreased sharply, it means there will be a problem of liquidity.

Compare with China Unicom, the debt ratio of China Telecom kept gradually decrease from 2009 to 2011 but increased again from 2012 to 2013. This phenomena means in the previous three years China Telecom had better ability to pay its liability, but at the beginning of 2012, China Telecom in order to purchase CDMA network’s assets of 30 provinces, they had to increase the proportion of company’s assets financed by debt. This is the reason why debt ratio increased again from 2012 to 2013.

Contrast with China Telecom and China Unicom, China Mobile's debt ratio was the lowest and keeping stable and around 32% from 2009 to 2013, the biggest difference was not exceeded 2%. It means China Mobile had fewer long-term liabilities, and the ability of repayment is higher, it doesn't need to worry in a debt risk, in this era of high-speed operation of communications, companies' liquidity of capital is more and more important, therefore these companies should control debt ratio in a reasonable range.

Chart 4.6 Debt to equity ratio of communication industry companies

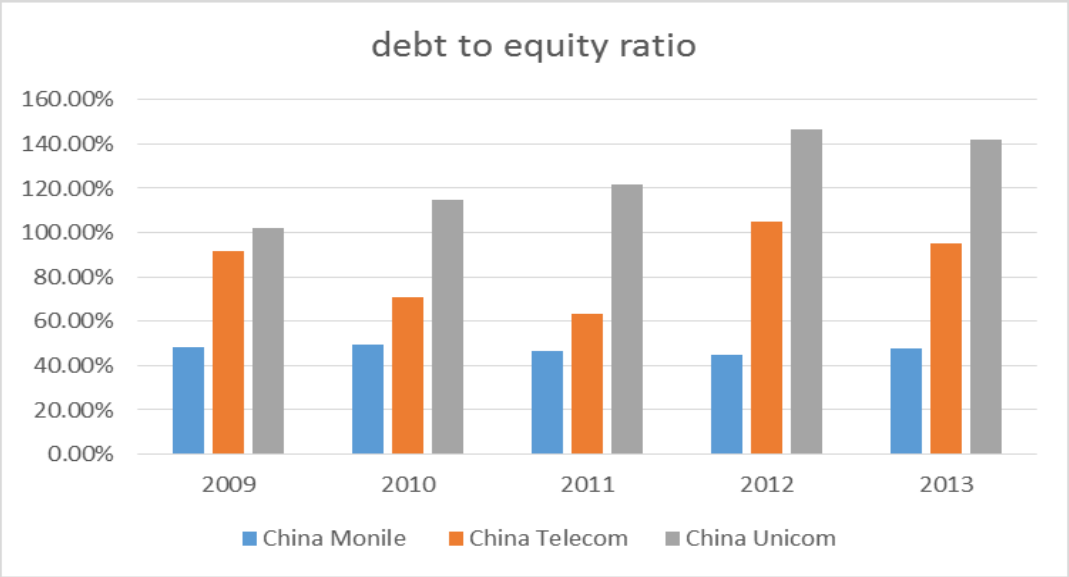


Chart 4.6 shows the debt to equity ratio which is similar to debt ratio. Debt to equity ratio relates the amount of the company's debt relative to company's equity. As we can see from Chart 4.6, the debt to equity ratio of China Unicom is higher than 1 in the previous five year, the company needs to use more debt for assets financing than equity. It means China Unicom is aggressive in financing with the liabilities, if China Unicom doesn't change this situation of gradual increasing debt to equity ratio in the future, in can be troubled with financial risk.

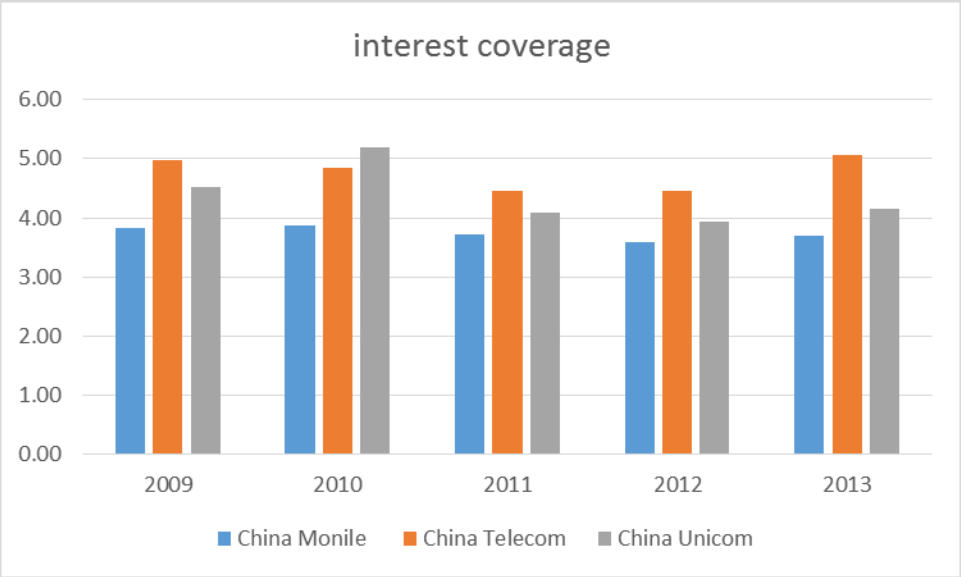
We can compare chart 4.6 with chart 4.5, debt ratio and debt to equity ratio have the same trend. For example, the two ratio of China Telecom both decreased from 2009 to 2011 and then increased from 2012 to 2013. We can say debt to equity ratio is another form of debt ratio, it reflects the contrast relationship of funds provided by creditors and shareholders' fund provided.

In contrast to China Unicom, China Mobile's debt to equity ratio kept little changed and

was approximately 40%. In 2012, the difference about these two companies' debt to equity ratio is about 100%. Through this information, we can get results that China Mobile has better long-term financial situation and creditor's loan is more security.

From chart 4.5 and chart 4.6, we can obtain a result that the operation of China Mobile is more stable, its assets only had a little from debt financed, although the company need to pay the dividends, but it did not have the obligation to pay for interest from debt.

Chart 4.7 Interests Coverage of Communication Industry Companies



We can see from chart 4.7, the total amount of interest coverage of these three company in 2011 is the minimum. Interest coverage is basically a risk warning indicator, particularly when the company experienced a low performance, the vulnerable period of free cash flow is more critical, it may indicate whether the company have the ability to pay interest to avoid debt risk, and whether there is the ability to reverse the plight from financing. Obviously, if this ratio is less than one, company has been a very crucial situation, and shows the company generated profits even not enough to pay the bank interest, if a company's interest coverage less than 1 in a long-term period, even lead to corporate bankruptcy.

In the chart 4.7, we can see there is no company's interest coverage is less than 1 point, this is a good situation for communication industry, but in 2011, it is minimum than other years, company should be vigilance.

Interest coverage of China Mobile was never exceeds 5 in the previous five years, as we introduced before, interest coverage reflects enterprise's management ability to pay debt

interest. If this ratio keeps a lower level, it means enterprise is hard to ensure it can pay debt interest on time with business income, which can lead to creditor worry about it. So this company should try their best to avoid lower interest coverage.

4.2 Pyramidal Decomposition Analysis

In this section, we will introduce the pyramidal decomposition analysis which method we presented in chapter 2. Pyramidal decomposition analysis is a method can help us to know which factor has the biggest influence on activity and solvency ratio of a company, and the aim of this analysis is to consider correlative aspects of significant financial ratios and let company to know how to improve the financial position and make profit. The main analysis is total assets turnover ratio and debt to equity ratio in the two company China Mobile and China Telecom.

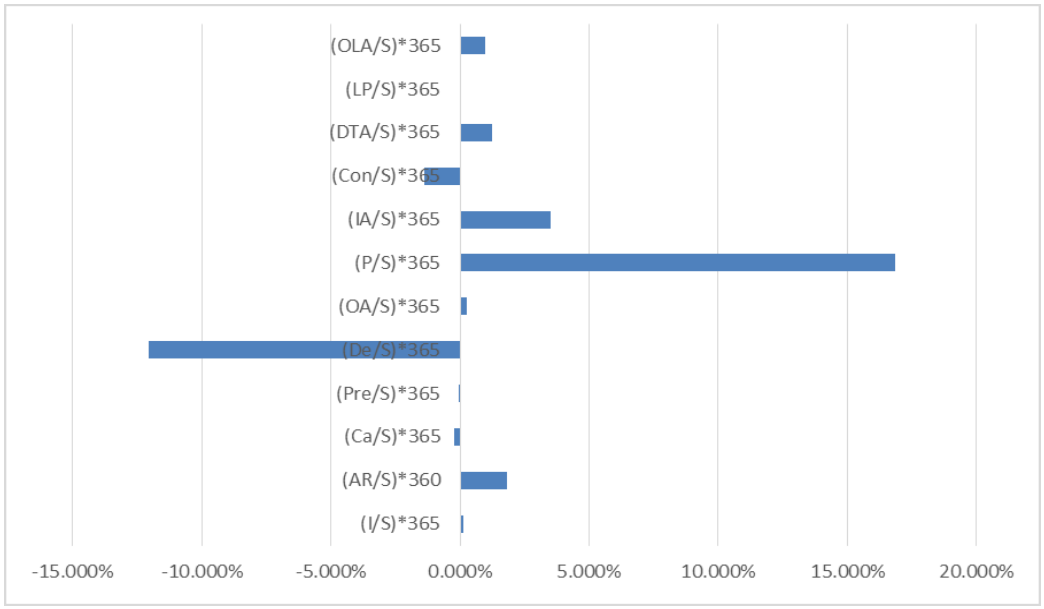
4.2.1 Total Assets Turnover Ratio

At first, we will do the pyramidal decomposition of TAT, we will compare two company China Mobile and China Telecom in the previous five years 2009 to 2013. Through this method, we can analyze which component ratio made the biggest influence and why company has the better performance in some field but bad in the other realm. We can decompose TAT in order to find the reason.

Table 4.7 Pyramidal decomposition of TAT of company China Mobile and China Telecom in 2009.

Indicator	*Influence*	*Influence (+,-)*	*Order*
(I/S)*365	0.001	+	10
(AR/S)*360	0.018	+	4
(Ca/S)*365	-0.002	-	8
(Pre/S)*365	0.000	-	12
(De/S)*365	-0.121	-	2
(OA/S)*365	0.002	+	9
(P/S)*365	0.169	+	1
(IA/S)*365	0.035	+	3
(Con/S)*365	-0.014	-	5
(DTA/S)*365	0.012	+	6
(LP/S)*365	0.000	+	11
(OLA/S)*365	0.010	+	7
Σ	0.111		

Chart 4.8 Influence of Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2009



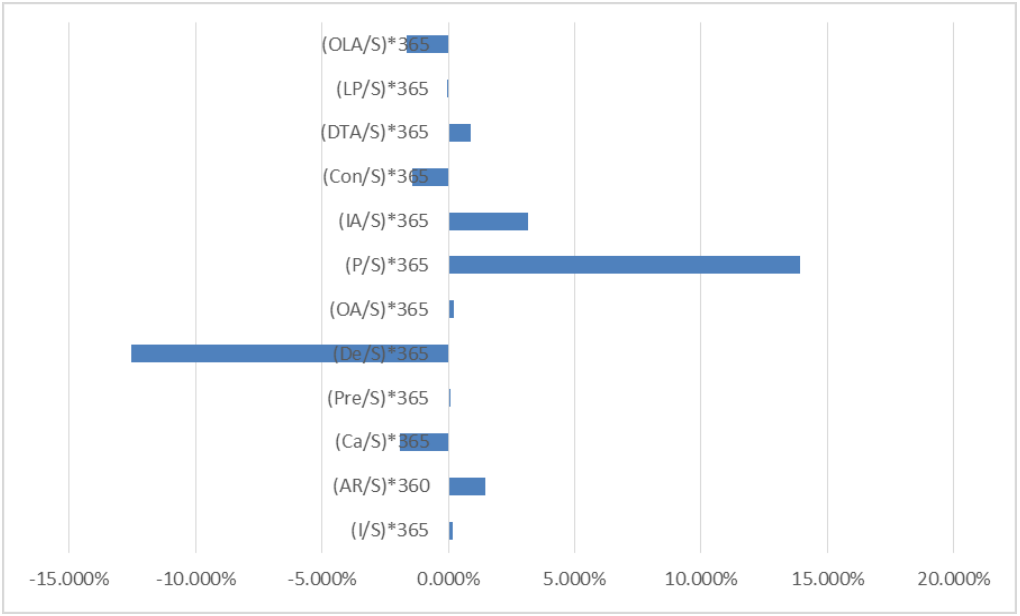
We can see from above two pictures, TAT of this two company was 0.11 in 2009. Among of this component indicators, eight is positive influence and four is negative, after the calculation, (P/S)*365 ranked first and it had around 0.17 positive influence. (De/S)*365 had the second biggest influence, which is negative 0.12. And (Pre/S)*365 only had negative 0.00041 influence, if we change Pre, TAT almost will have no change, but instead of Pre, if we change P, TAT will variation a lot. So we will focus on the analysis of effecting of P and De to TAT.

In 2009, P of China Mobile was 360075 million yuan and China Telecom were 286328 million yuan, it occupied the most proportion of sale. If we want to increase TAT in this two companies, we must augment the amount of P of China Telecom or decrease the amount of P of China Mobile, for example, if China Telecom has 386328 million yuan of P in 2009, the TAT will increase almost 14%. As we introduced before, if we have higher TAT, it means we can get more revenues. So TAT increased 14% represent it can bring us more 0.14 revenues.

Table 4.8 Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2010

Indicator	*Influence*	*Influence (+,-)*	*Order*
(I/S)*365	0.002	+	10
(AR/S)*360	0.015	+	6
(Ca/S)*365	-0.019	-	4
(Pre/S)*365	0.001	-	11
(De/S)*365	-0.126	-	2
(OA/S)*365	0.002	-	9
(P/S)*365	0.139	+	1
(IA/S)*365	0.032	+	3
(Con/S)*365	-0.014	+	7
(DTA/S)*365	0.009	-	8
(LP/S)*365	0.000	+	12
(OLA/S)*365	-0.017	-	5
Σ	0.023		

Chart 4.9 Influence of Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2010



From chart 4.9 and table 4.8, we can immediately see the order (P/S)*365 is first and (D/E) is second, and also one is positive another is negative, but the sum of TAT in this two company has changed a lot, why it is happened? This is because (Ca/S)*365 from negative 0.244% in 2009 changed to negative 1.913% in 2010 and (P/S)*365 has decreased nearly 3%.

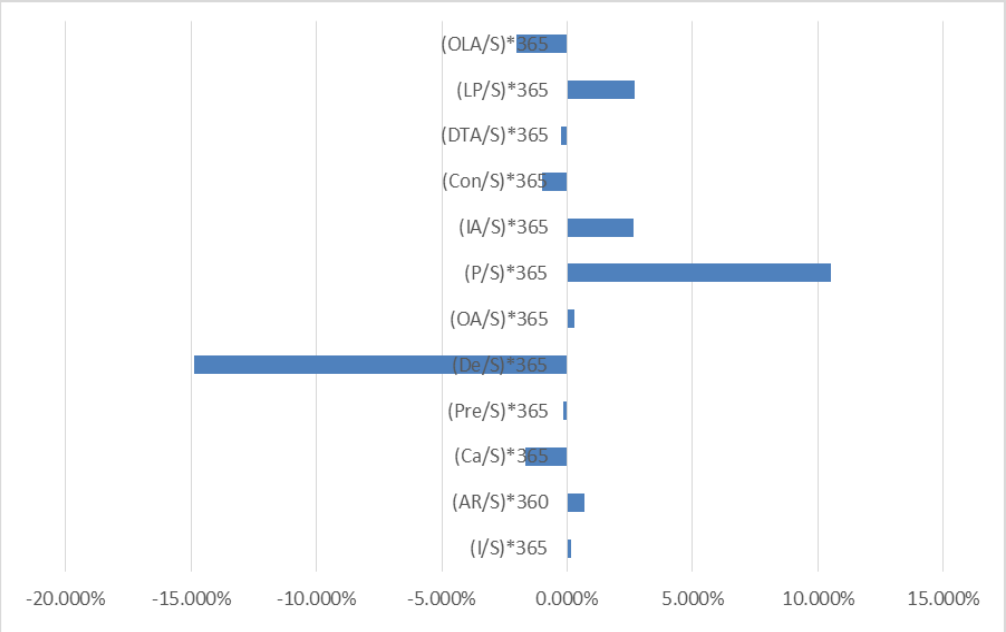
We can see the difference of China Mobile and China Telecom has increased a lot about

cash in 2010. This is because China Telecom developed the next generation internet technology used many cash. The (Ca/S)*365 altered and ranked forth. If we want to increase TAT, we should decrease the negative influence. So China Telecom should hold more cash in order to these two companies can get higher TAT.

Table 4.9 Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2011

Indicator	*Influence*	*Influence (+,-)*	*Order*
(I/S)*365	0.002	+	12
(AR/S)*360	0.007	+	8
(Ca/S)*365	-0.017	-	6
(Pre/S)*365	-0.002	-	11
(De/S)*365	-0.149	-	1
(OA/S)*365	0.003	-	9
(P/S)*365	0.105	+	2
(IA/S)*365	0.027	+	4
(Con/S)*365	-0.010	+	7
(DTA/S)*365	-0.003	-	10
(LP/S)*365	0.027	+	3
(OLA/S)*365	-0.020	-	5
Σ	-0.030		

Chart 4.10 Influence of Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2011



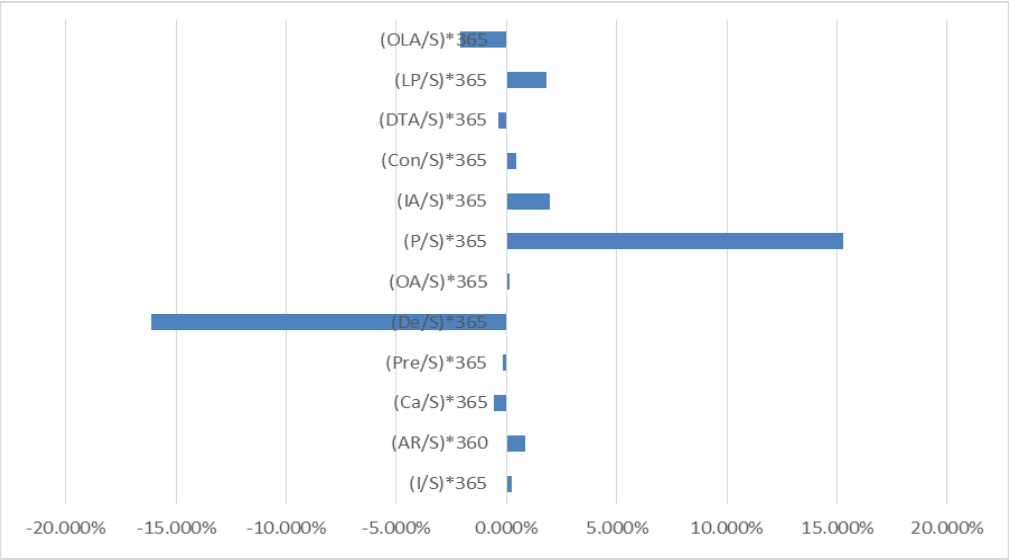
From above two pictures, we can see there is some change happened, (De/S)*365 replaced (P/S)*365 and ranked first in 2011, (P/S)*365 was the second. And the sum of TAT vary from positive to negative, it was negative 3.037%.

We can see this two company China Mobile and China Telecom had different bank deposit and the difference is huge, but in 2011 China Mobile's bank deposit was increased 42000 million yuan and in contrast bank deposit of China Telecom decreased 100 million yuan, so the (De/S)*365 ranked first. This is a bad situation for this two company, because (De/S)*365 is a component indicator of TAT, and it's negative. So TAT will be decreased and it means there was no successfully using its assets to generate revenues. Therefore, China Mobile can decrease its deposit or China Telecom increase its deposit, both ways the (De/S)*365 can be smaller and TAT corresponding increase.

Table 4.10 Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2012

Indicator	***Influence***	***Influence (+,-)***	***Order***
(I/S)*365	0.002	+	11
(AR/S)*360	0.008	+	6
(Ca/S)*365	-0.006	-	7
(Pre/S)*365	-0.002	-	12
(De/S)*365	-0.161	-	1
(OA/S)*365	0.001	+	10
(P/S)*365	0.153	+	2
(IA/S)*365	0.020	+	4
(Con/S)*365	0.004	+	8
(DTA/S)*365	-0.004	-	9
(LP/S)*365	0.018	+	5
(OLA/S)*365	-0.021	-	3
Σ	0.013		

Chart 4.11 Influence of Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2012



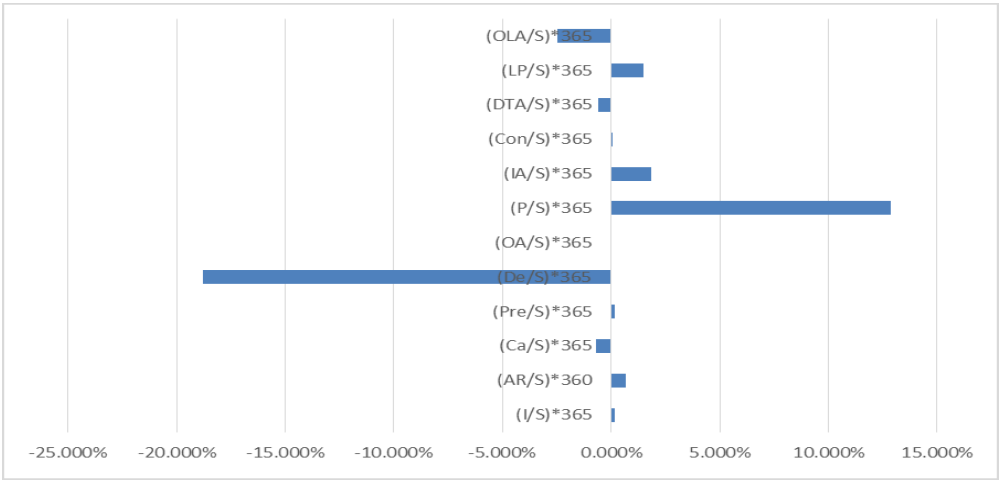
From chart 4.11 and table 4.10, we can see TAT is 1.333%, component indicator (P/S)*365 was increased almost 4.7%, this is because sale of China Telecom increased nearly 38000 million yuan and plant and property almost augment 105000 million yuan, so the decomposed indicator (P/S)*365 has added 81.4, but China Telecom had almost no change. Therefore, this indicator was increased, and it had the biggest influence on TAT, so the TAT was increased also.

Compare with this two company China Mobile and China Telecom in 2012, (De/S)*365 also had the negative influence, if we decrease China Mobile's deposit to 231997 million yuan, the component indicator (De/S)*365 will increased about 5%, and China Telecom also can increase its deposit in order to improve the TAT among this two companies.

Table 4.11 Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2013

Indicator	*Influence*	*Influence (+,-)*	*Order*
(I/S)*365	0.002	+	9
(AR/S)*360	0.007	+	6
(Ca/S)*365	-0.007	-	7
(Pre/S)*365	0.002	+	10
(De/S)*365	-0.188	-	1
(OA/S)*365	0.000	-	12
(P/S)*365	0.129	+	2
(IA/S)*365	0.018	+	4
(Con/S)*365	0.001	+	11
(DTA/S)*365	-0.006	-	8
(LP/S)*365	0.015	+	5
(OLA/S)*365	-0.025	-	3
Σ	-0.052		

Chart 4.12 Influence of Pyramidal Decomposition of TAT of Company China Mobile and China Telecom in 2013



We can see form above this two pictures, TAT is negative 5.216% in 2013, why the TAT of China Mobile and China Telecom had decreased a lot, this is because both two biggest influence component indicator had decreased, (De/S)*365 was negative 18.788% and (P/S)*365 was positive 12.897%. Compare with last year, (De/S)*365 decreased about 2.7% and (P/S)*365 decreased about 2.4%.

We will give an example, suppose we decrease property and deposit of China Mobile in 2014, P is 379227 million yuan and De is 274977 million yuan, (P/S)*365 will increase almost 5% as well as (De/S)*365 will increase about 5%. On the other side, we suppose

increase property and deposit of China Telecom in 2014, (P/S)*365 and (De/S)*365 both will have corresponding increase. As a result, we can get higher TAT.

Table 4.12 Summary Influence Table of Total Assets Turnover

Year / Influence	2009	2010	2011	2012	2013	**Average influence**	Final order
(I/S)*365	0.001	0.002	0.002	0.002	0.002	0.002	11
(AR/S)*365	0.018	0.015	0.007	0.008	0.007	0.011	6
(Ca/S)*365	-0.002	-0.019	-0.017	-0.006	-0.007	-0.010	7
(Pre/S)*365	0.000	0.001	-0.002	-0.002	0.002	0.000	12
(De/S)*365	-0.121	-0.126	-0.149	-0.161	-0.188	-0.149	1
(OA/S)*365	0.002	0.002	0.003	0.001	0.000	0.002	9
(P/S)*365	0.169	0.139	0.105	0.153	0.129	0.139	2
(IA/S)*365	0.035	0.032	0.027	0.020	0.018	0.026	3
(Con/S)*365	-0.014	-0.014	-0.010	0.004	0.001	-0.007	8
(DTA/S)*365	0.012	0.009	-0.003	-0.004	-0.006	0.002	10
(LP/S)*365	0.000	0.000	0.027	0.018	0.015	0.012	5
(OLA/S)*365	0.010	-0.017	-0.020	-0.021	-0.025	-0.015	4
Total influence	0.111	0.023	-0.030	0.013	-0.052	0.013	

Table 4.12 is the summary table about total assets turnover, it summarized each indicator's average influence of TAT in the previous five years and we get a new final order for each indicators influence. We can also easily see the total influence of each year.

Summary table is necessary for a company to analyze the biggest influence indicator, because in some year, one indicator may be have big influence for a company's TAT, but on the whole, its influence is not very important for a company. So we calculated the average influence of each indictor in order to know which indicator has the first influence from 2009 to 2013. From this summary table, we can not only horizontal compare the each indicators average influence, but also vertical compare each year's TAT variation.

From table 4.12, we can see (De/S)*365 has the biggest influence for TAT, and (P/S)*365 rank second. (Pre/S)*365 has the least influence. As we introduced before, the higher total assets turnover, the better benefits can be brought. Lower TAT means the higher turnover days, which shows that company is not using its assets efficiency. It will not only affect company's profitability, but also directly affect the dividend distribution of listed companies. If we want to improve TAT on the whole, we should focus on increase this two indicators (De/S)*365 and (Pre/S)*365.

At the vertical side, we can find in 2011 and 2013, the total assets turnover's difference of China Mobile and China Telecom respectively are -0.030 and -0.052, but in other three years, it is positive, which respectively are 0.111, 0.023 and 0.013. Average total influence of change between these two companies is 0.013.

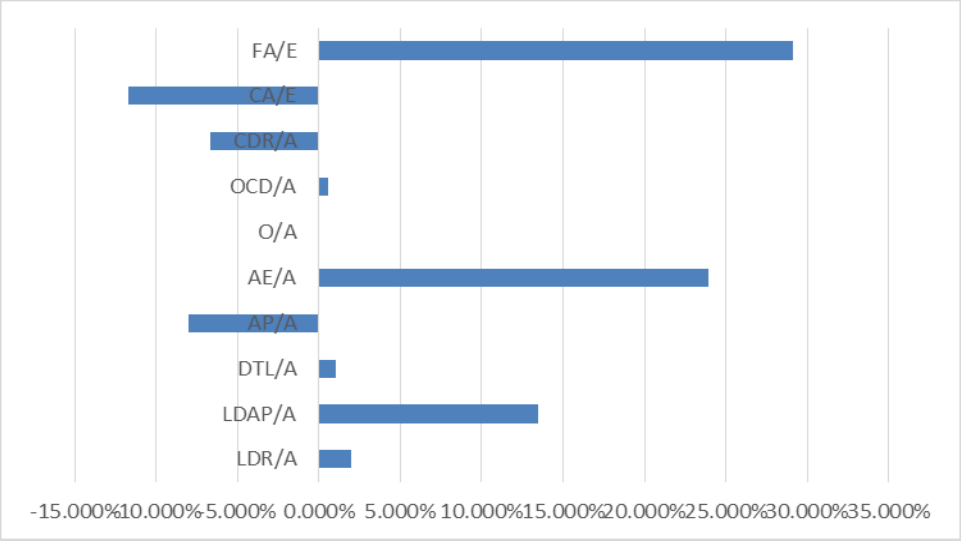
4.2.2 Pyramidal Decomposition of Solvency Ratio

Solvency ratio has three basic types of ratio: debt ratio, debt to equity ratio and interest coverage. In this section, we will introduce debt to equity ratio and also compare China Mobile with China Telecom.

Table 4.13 Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2009

Indicator	*Influence*	*Influence (+,-)*	*Order*
LDR/A	1.942%	+	7
LDAP/A	13.463%	+	3
DTL/A	1.029%	+	8
AP/A	-8.051%	-	5
AE/A	23.913%	+	2
O/A	-0.008%	-	10
OCD/A	0.578%	+	9
CDR/A	-6.697%	-	6
CA/E	-11.681%	-	4
FA/E	29.096%	+	1
Σ	***43.583%***		

Chart 4.13 Influence of Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2009



From above two pictures, we can see the influence of FA/E was most on DTE, it approached positive 29.096%. And AE/A made the second biggest influence which is positive 23.913%. The sum of these 10 component indicators is 43.583, it is the debt to equity ratio in 2009.

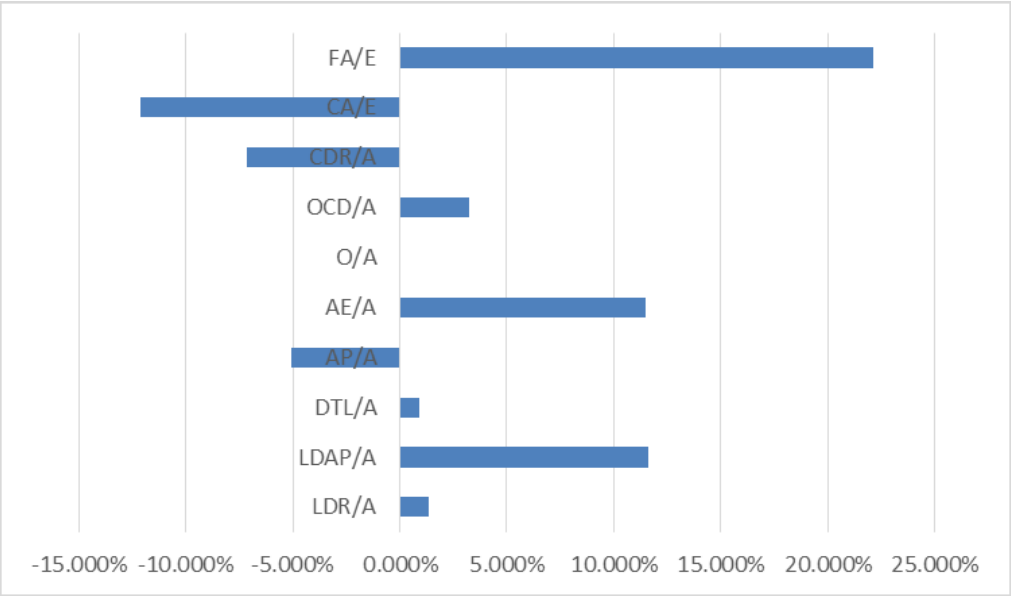
We can see DTE in 2009 had 6 positive influence indicators and four negative indicators, CA/E is the biggest negative influence which was negative 11.681% and ranked fourth biggest influence component indicator. If company wants to have a healthy DTE, they should control it in a reasonable scope, too low or too high both are inadvisable.

In 2009, if we decrease CA of China Mobile to 187355 million yuan and add the amount of CA about China Telecom to 70936 million yuan, CA/E will be increased about 9.5%. In addition, if the companies want to increase DTE, they should decrease CA in the side of China Mobile and increase CA of China Telecom.

Table 4.14 Pyramidal decomposition of DTE of company China Mobile and China Telecom in 2010

Indicator	*Influence*	*Influence (+,-)*	*Order*
LDR/A	1.374%	+	8
LDAP/A	11.591%	+	3
DTL/A	0.935%	+	9
AP/A	-5.082%	-	6
AE/A	11.466%	+	4
O/A	-0.012%	-	10
OCD/A	3.220%	+	7
CDR/A	-7.151%	-	5
CA/E	-12.117%	-	2
FA/E	22.109%	+	1
Σ	***26.33%***		

Chart4.14 Influence of Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2010

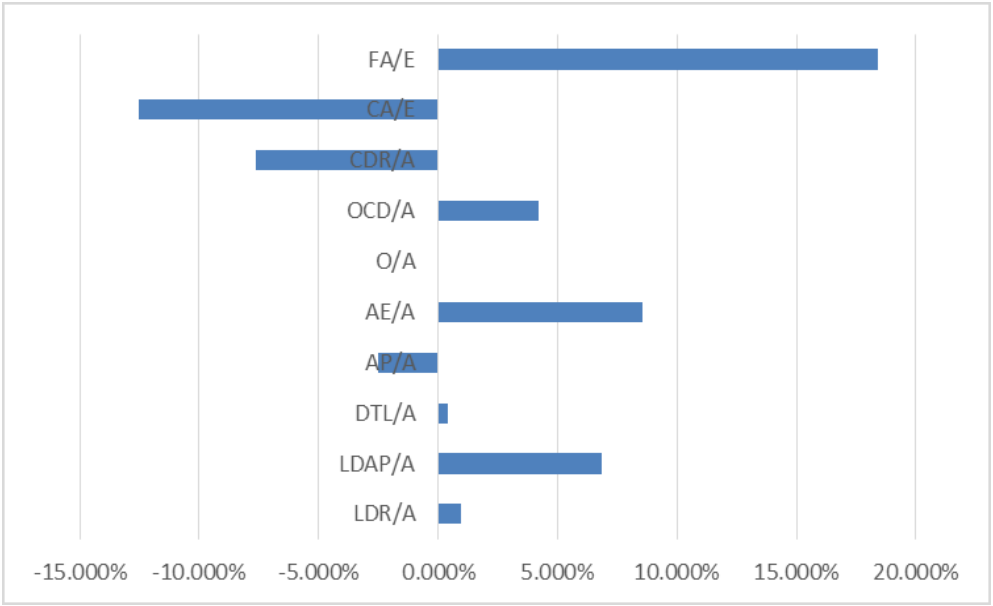


We can see from chart 4.14 and table 4.14, the sum of these ten indicator items is 26.333%, it means DTE decreased 7.25% in 2010. Through analyze these component, we can find AE/A decreased 12.5%, it dropped sharply. Through it ranked fourth biggest influence on DTE, the change of FA/E, CA/E and LDAP/E is not very big, comparing with last table 4.9, we can find the difference of AE/A is biggest. In 2010, DTE is too low of China Mobile and China Telecom. We suppose increase the AE of China Telecom to 83559 million yuan and decrease the AE of China Mobile to 84894 million yuan, the indicator AE/E will up to 17.346%. So we can see in 2010 AE/E made the low solvency ratio.

Table 4.15 Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2011

Indicator	*Influence*	*Influence (+,-)*	*Order*
LDR/A	0.960%	+	8
LDAP/A	6.861%	+	5
DTL/A	0.410%	+	9
AP/A	-2.513%	-	7
AE/A	8.554%	+	3
O/A	-0.011%	-	10
OCD/A	4.213%	+	6
CDR/A	-7.644%	-	4
CA/E	-12.533%	-	2
FA/E	18.406%	+	1
Σ	***16.70%***		

Chart 4.15 Influence of Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2011



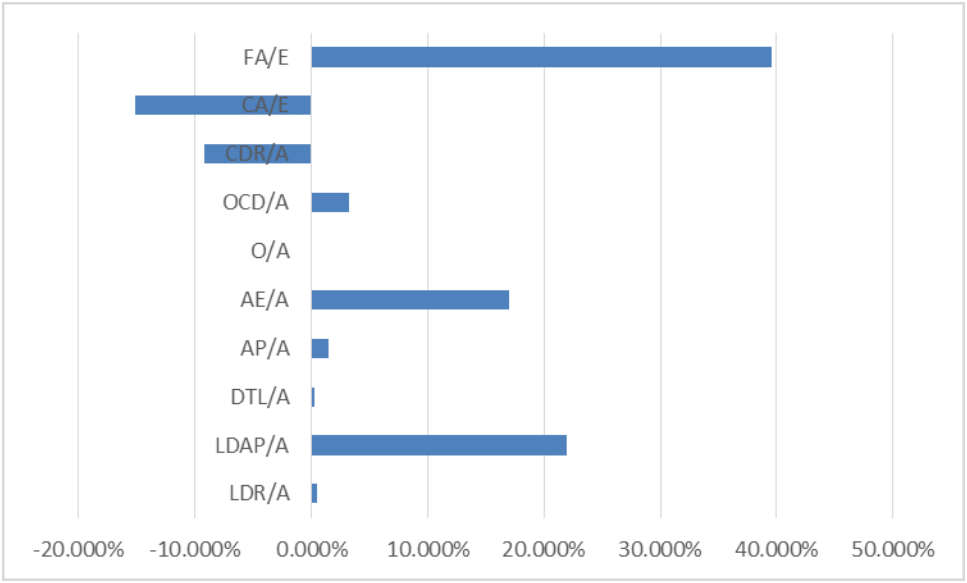
Above this two picture, we can see there was six positive influence on DTE and four indicators negative influence. Which indicator caused DTE is too low only had 16.704% and decreased nearly 9.6% compared with last table 4.10. We can get some information from chart 4.16,FA/E has the biggest influence, if we augment this decomposed indicator, we can have a higher DTE and control this ratio in a reasonable range. There is a assumption, if we decrease China Mobile's FA 100000 million yuan and add the amount of China Telecom FA also 100000million yuan, indicator FA/E will be approached 35.357%. So we can see FA/E caused

China Mobile and China Telecom's solvency ratio is too low in 2011.

Table 4.16 Pyramidal decomposition of DTE of company China Mobile and China Telecom in 2012

Indicator	*Influence*	*Influence (+,-)*	*Order*
LDR/A	0.522%	+	8
LDAP/A	22.003%	+	2
DTL/A	0.223%	+	9
AP/A	1.501%	+	7
AE/A	17.046%	+	3
O/A	-0.011%	-	10
OCD/A	3.248%	+	6
CDR/A	-9.153%	-	5
CA/E	-15.147%	-	4
FA/E	39.601%	+	1
Σ	***59.835%***		

Chart 4.16 Influence of Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2012



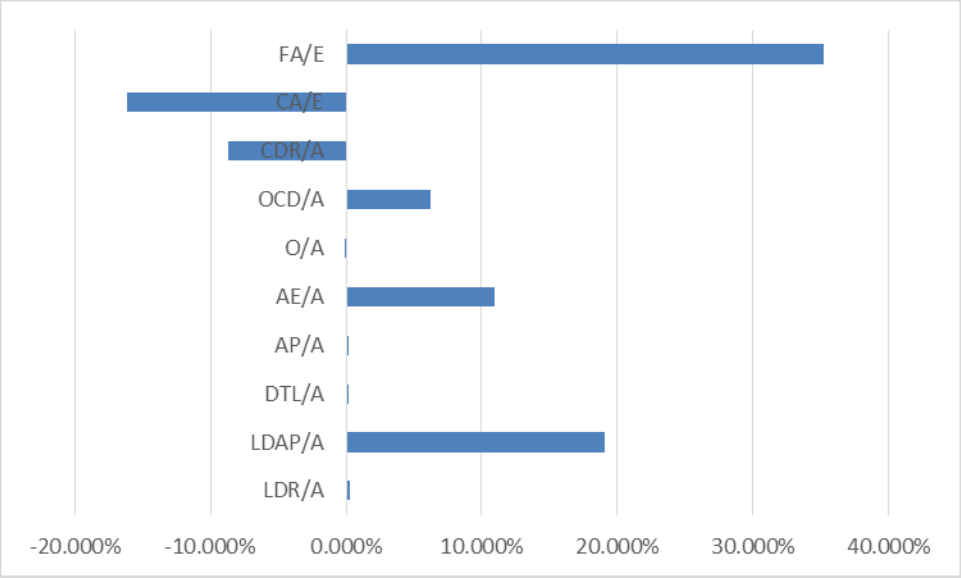
From chart 4.16 and table 4.16, we can find the DTE was 59.835%, FA/E, LDAP/A, AE/A, CA/E was the four biggest influence indicators. We compare table 4.12 with table 4.11can easily see the change of FA/E, LDAP/A and AE/A had the big contributions for the DTE increased 43.1% from 2011 to 2012. China Telecom and China Mobile's DTE component indicator FA/E was 39.601% which increased 21.2%, decomposed indicator LDAP/A was 22.003 which increased 15.2% and AE/A was 17.046 that augment 4.5%. So in

2012 China Mobile and China Telecom made so high solvency ratio mainly factors are these three components.

Table 4.17 Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2013

Indicator	*Influence*	*Influence (+,-)*	*Order*
LDR/A	0.291%	+	7
LDAP/A	19.070%	+	2
DTL/A	0.184%	+	8
AP/A	0.175%	+	9
AE/A	10.982%	+	4
O/A	-0.010%	-	10
OCD/A	6.262%	+	6
CDR/A	-8.714%	-	5
CA/E	-16.178%	-	3
FA/E	35.244%	+	1
Σ	***47.31%***		

Chart 4.17 Influence of Pyramidal Decomposition of DTE of Company China Mobile and China Telecom in 2013



From chart 4.17 and table 4.13 the sum of these indicators was 47.308%, which means DTE was 47.308% in 2013. We suppose China Mobile drop LDAP to 3989 million yuan and increase China Telecom LDAP to 72617 million yuan, the amount of LDAP/A will increase 3.3%. If this two company want to have higher DTE and use more debt for financing than equity, they can change the decomposed indicator LDAP/A like this.

Table 4.18 Summary Influence Table of DTE

Years / Influence	2009	2010	2011	2012	2013	**Average Influence**	Final order
LDR/A	1.942%	1.374%	0.960%	0.522%	0.291%	1.018%	8
LDAP/A	13.463%	11.591%	6.861%	22.003%	19.070%	14.598%	2
DTL/A	1.029%	0.935%	0.410%	0.223%	0.184%	0.556%	9
AP/A	-8.051%	-5.082%	-2.513%	1.501%	0.175%	-2.794%	7
AE/A	23.913%	11.466%	8.554%	17.046%	10.982%	14.392%	3
O/A	-0.008%	-0.012%	-0.011%	-0.011%	-0.010%	-0.010%	10
OCD/A	0.578%	3.220%	4.213%	3.248%	6.262%	3.504%	6
CDR/A	-6.697%	-7.151%	-7.644%	-9.153%	-8.714%	-7.872%	5
CA/E	-11.681%	-12.117%	-12.533%	-15.147%	-16.178%	-13.531%	4
FA/E	29.096%	22.109%	18.406%	39.601%	35.244%	28.891%	1
Total Influence	43.583%	26.333%	16.704%	59.835%	47.308%	38.753%	

From table 4.18, we can find there is a new order of TAT change between China Mobile and China Telecom. Among these ten indicators, FA/E ranks the first and LDAP rank second. The average influence respectively is 28.89% and 14.60%. But O/A has only negative 0.01% influence. So if we want to increase the influence of DTE change between China Mobile and China Telecom, we should focus on increasing FA/E and LDAP/A indicators.

From the horizontal side, we can find in the previous years, there are four indicators' average influence is negative, and six is positive. Which indicator lead to the negative influence for DTE, they respectively are AP/A, O/A, CDR/A and CA/E. And FA/E, LDAP/A, AE/A, OCD/A, LDR/A, DTL/A all of which lead to the positive influence.

From the vertical side, we can see from 2009 to 2011, the influence of DTE change between these two companies is gradually decrease from 43.53% to 16.70. Then from 2011 to 2013, it goes up from 16.70% to 47.31%. The turning point is 16.70% in 2011, the difference between the highest point and lowest point is 43.13%, so there is a huge fluctuation. And the average influence among these five years is 38.75%.

4.3 Sensitivity Analysis

Sensitivity analysis is aiming to find out the sensitivity factors which have important influence on investment projects from the many uncertainty factors. In order to analyze, calculate its degree of influence and sensitivity to the economic benefit index, and then judge the risk ability of projects. In other words, if some parameters with small changes can lead to the large variation of the economic effect index, then we can call this parameter is sensitivity factor. The essence is to expose the rule through method of single change of relevant variables to explain the key indicators are influenced by these relevant factor changes.

Table 4.19 Sensitivity Analysis of Total Assets Turnover (Unit for ΔItem is million RMB)

Change (%)	ΔCa	ΔTAT	ΔP	ΔTAT	ΔS	ΔTAT
15%	6739.65	-0.010	71884.05	-0.040	94526.55	0.074
10%	4493.10	-0.009	47922.70	-0.029	63017.70	0.047
5%	2246.55	-0.008	23961.35	-0.018	31508.85	0.020
0	0	-0.007	0	-0.007	0	-0.007
-5%	-2246.55	-0.006	-23961.35	0.004	-31508.85	-0.034
-10%	-4493.10	-0.005	-47922.70	0.015	-63017.70	-0.061
-15%	-6739.65	-0.004	-71884.05	0.026	-94526.55	-0.088

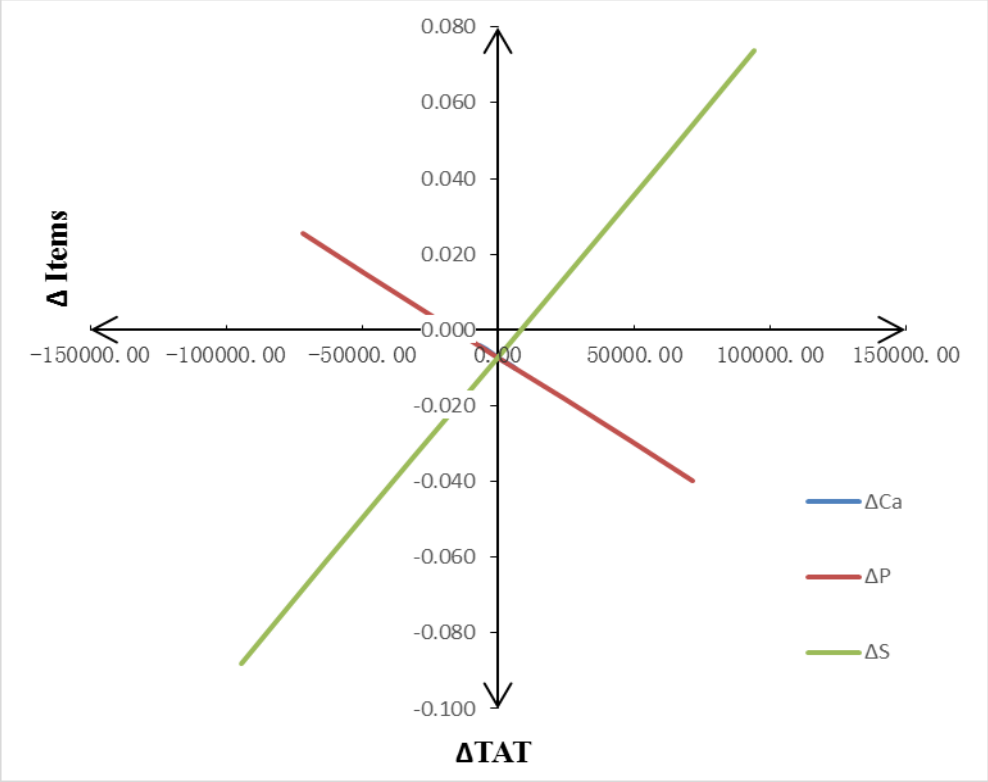
From table 4.19，we can see three key indicators of total assets turnover, they are respectively are Ca, P and S. We will do the sensitivity analysis with percentage change of important decomposed indicators, and then see the distinction of total assets turnover. The initial level of total assets turnover is -0.007 if we suppose cash, plant and property, sales with no percentage change.

From ΔCa side, we can see if we increase the percentage change, which means reduce the amount of cash, the total assets turnover ratio will be decreased. And vice versa. For example, if we change positive 10% cash, it will be a reduction of 4493.10 million yuan cash, total assets turnover ratio will be decreased to -0.009. If we add the amount of cash, which represent the negative percentage change, total assets turnover will be increased. So the ΔCa is a down sloping curve. From chart 4.18, we can hardly see this curve, because it has the same track with ΔP.

From ΔP side, we can see it has the same trend with ΔCa from Chart 4.18, they are both the curve with downward sloping. But ΔP has more widely range than ΔCa, so relatively speaking, plant and property is much more important indicator than cash for China Mobile.

From ΔS side, we can see it has the different trend compare with ΔCa and ΔP from Chart 4.18, it is a upward sloping curve. If we change sale with positive 10%, the total amount of sales will be reduced to 567,159.00 million yuan, and the total assets turnover is 0.047. Inverse we change sale with negative 10%, the total amount of sales will be increased to 5693.195.00 million yuan, and total assets turnover is -0.061. The higher is the percentage change, the higher total assets turnover will be. So ΔS is an upward sloping curve.

Chart 4.18 Sensitivity Analysis of Total Assets Turnover



From Chart 4.18, we can summarized that if China Mobile want to increase its total assets turnover, they can do a negative percentage change of cash and plant and property, which means add the amount of cash, or, get a positive percentage change of sales, which means decrease the amount of sale. Both two ways can improve China Mobile's total assets turnover. And higher total assets turnover means stronger ability of sale and the better efficiency utilization of assets.

Table 4.20 Sensitivity Analysis of DTE (Unit for ΔItem is million RMB)

Change (%)	ΔAP	ΔDTE	ΔE	ΔDTE	ΔA	ΔDTE
15%	25973.55	-0.68%	118608.6	10.99%	175108.8	10.18%
10%	17315.7	0.41%	79072.4	7.87%	116739.2	7.50%
5%	8657.85	1.49%	39536.2	5.09%	58369.6	4.98%
0	0	2.58%	0	2.58%	0	2.58%
-5%	-8657.85	3.66%	-39536.2	0.31%	-58369.6	0.30%
-10%	-17315.7	4.75%	-79072.4	-1.75%	-116739	-1.88%
-15%	-25973.55	5.84%	-118609	-3.63%	-175109	-3.95%

We can see from table 4.20, this is some situations about sensitivity factors of debt to equity change. We chose three important indicator respectively are AP, E and A. And then we will analyze the difference of debt to equity with small change positive 5%, 10% and 15%, and negative 5%, 10% and 15%. The initial level of debt to equity is 2.58% if we assume there is no change on accounts payable, equity and assets.

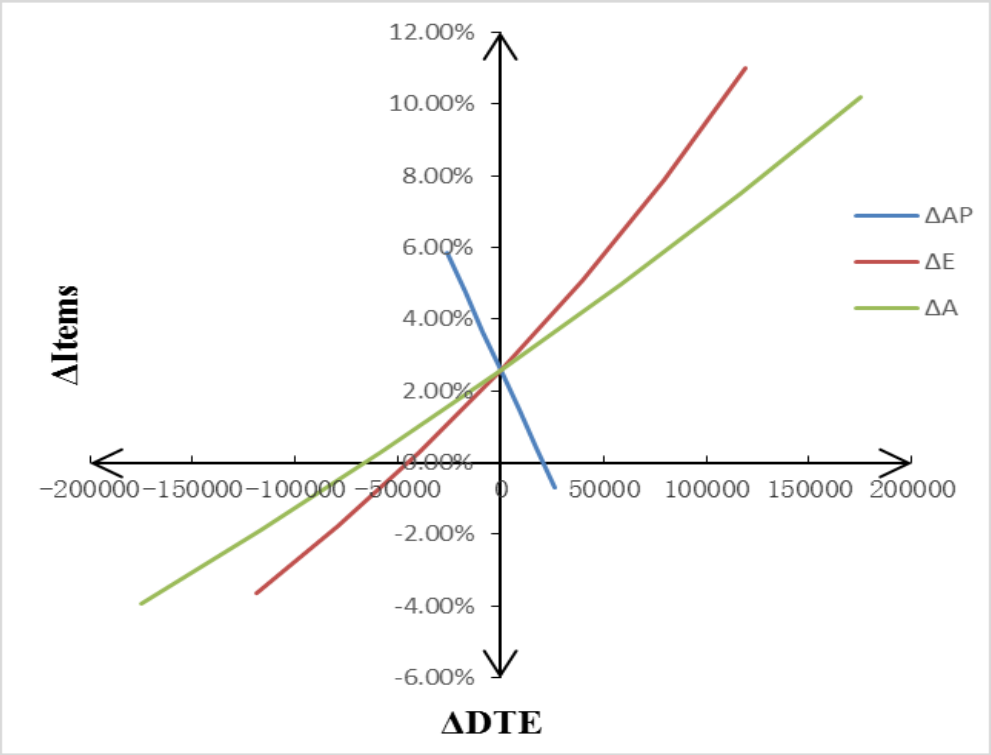
At first, we focus on ΔAP side, the increase positive percentage change of accounts payable can lead to the decrease of debt to equity ratio, to the contrary, if we reduce percent change accounts payable this ratio will increase. If accounts payable increased 5%, it will be reaching 164,499 million yuan, and debt to equity change to 1.49%. But if account payable decreased 5%, total amount of accounts payable will be increase 8657.85 million yuan, and this ratio will change to 3.66%, so we will find this line will be down sloping. And from chart 4.19, we can see ΔAP indeed is a straight line and down sloping.

From ΔE side, we can see from chart 4.19，(-79072.40, -1.75%) is the turning point for debt to equity turn to negative. If equity decreased 10%, then the absolute change is -79072.40 million yuan, the debt to equity will be reaching -1.75%, and this is the turning point. We can see if China Mobile decreased its equity more than 10%, it will be an upward-sloping curve. For example, China Mobile decreased equity to 15%, then absolute change of equity will be -118609.00 million yuan, and debt to equity decreased to negative 3.63%, hence connect this point with turning point, it will be a upward sloping curve. While if China Mobile decreased its equity bigger than negative 10% or increase the percentage change of equity, it will also be an upward sloping curve. For example, if we change 10% equity, it will be an absolute change of 79072.40 million yuan, and this ratio is 7.87%, so from this point to turning point is a curve that going to be upward. Therefore on the whole,

ΔE is an upward sloping curve.

From ΔA side, we can see if we increase percentage change of assets, it will lead to the increase of debt to equity, contrast with increase, if we increase the total amount of assets, debt to equity will be decreased. And we can see from chart 4.19, ΔA is a curve that upward sloping.

Chart 4.19 Sensitivity Analysis of DTE



From chart 4.19, we can do a conclusion that we increase the change percent of accounts payable, debt to equity ratio will does down. And if we change equity and assets with positive percentage change, debt to equity ratio will both increase. As we introduced before, the lower is debt to equity ratio, the better long-term financial situation is. So we can suggest that China Mobile can increase the positive percentage change of accounts payable and decrease the negative percentage change of equity and assets in order to reduce China Mobile's financial risk and meet its long-term liabilities.

4.4 Summary of Activity and Solvency Analysis

We can see chapter 4 include three aspects contents, financial ratio analysis, pyramidal decomposition analysis and sensitivity analysis. It is the most important part of our thesis, which called application part.

Through this part, we can know how well China Mobile uses its assets, and the ability to pay for its long-term obligation.

If China Mobile want to have more efficient assets utilization, we suggest that they can rise up total assets turnover, in other words, decreasing the inventory which can generate more funds and meet the demands of operation. And the lower current assets ratio is not good for China Mobile, it means there is less utilization for current assets, so China Mobile should improve current assets ratio and enhance the profitability.

If China Mobile wants to improve its ability to meet the long-term obligation, we suggest that they can decrease its debt ratio and debt to equity ratio, because the lower debt ratio means the longer days that company can pay for its debt. And if the debt ratio is decreased, it represents China Mobile can get a better long-term financial situation. The creditor's loan will also be more security, which can improve the image of China Mobile.

5. Conclusion

Through the previous four parts, we can have a deep understanding for China Mobile and its financial situation, China Mobile is one of the biggest communication companies, and it has international cooperation such as with Vodafone. Now we will get a conclusion for this thesis.

In order to reach the goal of finding out some methods which can help company improve the assets' efficiency utilization and enhance the ability to meet its long-term liabilities. We do analysis form chapter 2, chapter 3 and chapter 4.

We get some basic information in the methodology part, and financial statement help us to know company's performance and healthy situation, we can use these methodology to calculate common-size analysis, financial ratios and pyramidal decomposition analysis.

From activity ratio, we can compare China Mobile with China Telecom and China Telecom, in these three companies, China Mobile has the best assets utilization, and it will have a direct effect on liquidity. China Mobile's average collection period is shorter from 2009 to 2013, which refer to the receivable turnover is higher. It is because the amount of account receivable is less. For this reason, there is a high ability for China Mobile to convert the accounts receivable into cash.

At the aspect of solvency ratio, China Mobile has better ability to meet its long-term obligation among these three companies. China Mobile had a lowest debt ratio, and keep stable from 2009 to 2013. In contrast, China Unicom had about 60% proportion of the company's assets is financed by liabilities, which can put itself into a risk for no ability to pay its debt back. If company has high proportion financed by debt, they will have obligation for the interest paid and repaying the promised principal. For this situation, China Mobile's lower debt ratio has a guarantee for current assets and liquidity.

From pyramidal decomposition analysis, we compare China Mobile and China Telecom's total assets turnover and debt to equity ratio. At the side of total assets turnover, we suggest to increase the amount of plant and property of China Telecom and decrease the amount of plant and property of China Mobile in order to increase the total assets turnover. At the side of debt to equity ratio, we give a suggestion to decrease China Mobile's fixed assets and increase the

amount of fixed assets of China Telecom in order to get higher debt to equity ratio in 2011. Through pyramidal decomposition analysis, we can find indicator (De/S)*365 has the biggest influence on basic ratio total assets turnover, the biggest influence to debt to equity ratio is component indicator (FA/E), so China Mobile can focus on these two indicator to help company improve performance.

For sensitivity analysis, we are aiming to find out the sensitivity factors which have important influence on investment projects from the many uncertainty factors. We can see if China Mobile want to increase the total assets turnover, they can add the amount of cash or decrease sale. On the debt to equity side, lower debt to equity ratio means better long-term financial situation, therefore China Mobile can increase the positive percentage change of sensitivity factor accounts payable.

Finally, we suggest China Mobile can improve its disadvantages such as lower current assets turnover, and then it will be more competitive.

Bibliography

[1] DLUHOSOVA, D, T.TICHY and Z.ZEMSKAL. *Financial Models.* 1 st. Edition. VSB-Technical University of Ostrava, 2004. 254 pages. ISBN: 80-24807548.

[2] ROBINSON, Thomas R. et al. [i] International Financial Statement Analysis. [/i] 2.ed. New York: John Wiley and Sons, 2012. 1040 p. ISBN 978-0-470-91662-9.

[3] VAUSE, Bob. [i] Guide to Analyzing Company. [/i] 5.ed. Canada: Bloomberg Press, 2009. 326 p. ISBN 978-1-57660-341-3.

[4] BREALEY, Richard A., MYERS, Stewart C. and Franklin ALLEN. *Principle of Corporate Finance.* 9th edition. New York: McGreaw-Hill, 2008. ISBN 978-007-126327-6.

[5] ROSS, S. A. , R. W. WESTERFIELD and B. D. JORDAN. Fundamentals of Corporate Finance. 4th ed. Singapore: Irwin/Mcgraw-Hill, 1998. 708 p. ISBN 0-07-115509-0.

[6] DRAKE, Pamela. Analysis of Financial Statements. 3rd ed. NEW YORK: Wiley, 2012. ISBN 978-1118299982

Electronic Bibliography

[7] Official Website of China Mobile Limited [27.04.2015]. Available on.

http://www.chinamobileltd.com/en/ir/reports.php

[8] Official Website of China Telecom Limited [27.04.2015]. Available on.

http://www.chinatelecom-h.com/en/ir/reports.php

[9] Official Website of China Mobile Limited [27.04.2015]. Available on.

http://www.chinaunicom.com.hk/en/ir/ir_reports.html

List of Abbreviation

A: Assets

E: Equity of shareholders

TL: Total liabilities

RT: Receivable turnover

R: Revenue

AR: Average revenue

TAT: Total assets turnover

ATA: average total assets

ACP: Average collection period

Sc: Credit sale

AP: Accounts payable

DTA: debt to assets

D: Total debt

DTE: Debt to equity

IC: Interest coverage

EBIT: Earn before interest and tax

IP: Interest paid

FA: Fixed assets

P: Plant and property

IA: Intangible assets

Con: construction in progress

DTA: Deferred tax assets

LP: Lease prepayment

OLA: Other long-term assets

CA: Current Assets

I: Inventory

AOR: Accounts and other receivable

Ca: Cash

Pre: prepayment

De: Bank deposit

OA: Other assets

LD: Total long-term debt

CD: Total current debt

IBB: Interest-bearing borrowing

LDAP: Long-term debt and payables

LDR: Deferred revenue excluding current portion

DTL: Deferred tax liabilities

AE: Accrued expenses and other payables

O: Obligations under finance leases

CT: Current taxation

CLD: Current portion of long-term debt

OCD: Other current debt

SD: Short-term debt

CDR: Deferred revenue of current portion

Declaration of Utilisation of Results from a Diploma (Bachelor) Thesis

Herewith I declare that

- I am informed that Act No. 121/2000 Coll. – the Copyright Act, in particular, Section 35 – Utilisation of the Work as a Part of Civil and Religious Ceremonies, as a Part of School Performances and the Utilisation of a School Work – and Section 60 – School Work, fully applies to my diploma (bachelor) thesis;

- I take account of the VSB – Technical University of Ostrava (hereinafter as VSB-TUO) having the right to utilize the diploma (bachelor) thesis (under Section 35(3)) unprofitably and for own use ;□I agree that the diploma (bachelor) thesis shall be archived in the electronic form in VSB- TUO's Central Library and one copy shall be kept by the supervisor of the diploma (bachelor) thesis. I agree that the bibliographic information about the diploma (bachelor) thesis shall be published in VSB-TUO's information system;

- It was agreed that, in case of VSB-TUO's interest, I shall enter into a license agreement with VSB-TUO, granting the authorization to utilize the work in the scope of Section 12(4) of the Copyright Act;

- It was agreed that I may utilize my work, the diploma (bachelor) thesis or provide a license to utilize it only with the consent of VSB-TUO, which is entitled, in such a case, to claim an adequate contribution from me to cover the cost expended by VSB-TUO for producing the work (up to its real amount).

Ostrava dated 6. 5. 2015

Jing Luo 罗婧

Student's name and surname

List of Annexes

Annex 1: Consolidated Balance Sheet

Annex 2: Consolidated Cash Flow Statement

Annex 3: Consolidated Income Statement

Annex

Annex 1: Consolidated Balance Sheet

	2009 RMB million	2010 RMB million	2011 RMB million	2012 RMB million	2013 RMB million
Non-current assets					
Property, plant and equipment	360,075	385,296	408,165	430,509	479,227
Construction in progress	46,094	54,868	56,235	55,507	85,000
Land lease prepayments	11,201	12,040	12,798	14,244	19,735
Goodwill	36,894	36,894	36,894	36,894	36,894
Other intangible assets	727	813	818	924	1,063
Interest in associates		40,175	43,794	48,343	53,940
Interest in jointly controlled entity	6	8	7	6	
Deferred tax assets	8,939	9,720	10,913	13,544	17,401
Pledged bank deposits		162	122		
Restricted bank deposits				5,418	6,816
Other financial assets	77	77	127	127	127
	464,013	540,053	569,873	605,516	700,203
Current assets					
Inventories	3,847	4,249	7,944	7,195	9,152
Accounts receivable	6,405	7,632	9,165	11,722	13,907
Other receivables	3,490	7,076	19,483	8,605	11,649
Prepayments and other current assets	9,064	10,151	12,854	15,913	11,832
Amount due from ultimate holding company	25	293	170	102	94
Tax recoverable	17	135	91	153	647
Pledged bank deposits			32		
Deposits with banks	185,613	204,803	246,687	331,997	374,977
Cash and cash equivalents	78,894	87,543	86,259	70,906	44,931
	287,355	321,882	382,685	446,593	467,189
Current liabilities					
Accounts payable	95,985	111,646	116,266	123,896	173,157
Bills payable	642	502	1,616	1,159	1,360
Deferred revenue	35,573	43,489	51,753	57,988	61,789
Accrued expenses and other payables	69,335	85,716	92,362	103,774	125,811
Amount due to ultimate holding company	4	15	285	39	22
Amount due to immediate holding company	119	35	33	16	
Interest-bearing borrowings		4,981			

Obligations under finance leases	68	68	68	68	68
Current taxation	8,079	9,178	10,861	10,856	8,706
	209,805	255,630	273,244	297,796	370,913
Net current assets	77,550	66,252	109,441	148,797	96,276
Total assets less current liabilities	541,563	606,305	679,314	754,313	796,479
Non-current liabilities					
Interest-bearing borrowings	-33,551	-28,615	-28,617	-28,619	-4,989
Deferred revenue, excluding current portion	-317	-248	-261	-334	-662
Deferred tax liabilities	-61	-39	-17	-51	-104
	-33,929	-28,902	-28,895	-29,004	-5,755
NET ASSETS	507,634	577,403	650,419	725,309	790,724
CAPITAL AND RESERVES					
Share capital	2,139	2,139	2,140	2,142	2,142
Reserves	504,609	574,018	646,924	721,305	786,631
Total equity attributable to equity shareholders of the Company	506,748	576,157	649,064	723,447	788,773
Non-controlling interests	886	1,246	1,355	1,862	1,951
TOTAL EQUITY	507,634	577,403	650,419	725,309	790,724
Total assetss	751,368	861,935	952,558	1,052,109	1,167,392
Total Liabilities	243,734	284,532	302,139	326,800	376,668

Annex 2: Consolidated Cash Flow Statement

	2009 RMB million	2010 RMB million	2011 RMB million	2012 RMB million	2013 RMB million
Operating activities					
Profi t before taxation	153,836	159,071	166,582	171,300	158,579
Adjustments for:					
– Depreciation of property, plant and equipment	80,179	86,230	97,113	100,848	104,699
– Amortization of other intangible assets	56	62	54	68	78
– Amortization of land lease prepayments	261	298	325	346	385
– (Gain)/loss on disposal of property, plant and equipment	11		3	1	-3
– Write-off of property, plant and equipment	4,493	2,763	5,853	2,818	2,074
– Impairment loss of doubtful accounts	4,503	4,019	3,548	4,504	5,084
– Impairment loss of inventories	16	55	87		
– Write-down of inventories				313	202
– Interest income	-5,940	-5,658	-8,413	-12,661	-15,289
– Finance costs	1,243	902	565	390	331
– Dividend income from unlisted securities	-18	-17	-13	-11	-34
– Share of profi t of associate		-558	-4,306	-5,685	-7,062
– Share of loss of jointly controlled entity	8	18	1	1	
– Unrealized exchange loss /(gain), net	-3	6	9	-17	-59
– Loss on disposal of a subsidiary					18
Operating cashflow before changes in working capital	238,629	247,191	261,408	262,215	249,003
(Increase)/decrease in inventories	-353	-457	-3,492	436	-2,156
Increase in accounts receivable	-3,945	-5,232	-4,865	-7,063	-7,273

(Increase)/decrease in other receivables	127	170	-258	82	-148
Increase in prepayments and other current assets	-1,423	-1,087	-2,613	-3,403	-2,189
(Increase)/decrease in amount due from ultimate holding company	84	-268	123	68	8
Increase in accounts payable	2,598	5,704	651	5,443	5,372
(Decrease)/increase in bills payable	25	-1	614	20	-563
Increase in deferred revenue	2,376	7,847	8,277	6,308	4,129
Increase in accrued expenses and other payables	11,946	16,369	6,719	11,432	22,041
Increase/(decrease) in amount due to ultimate holding company	-2	11	270	-246	-17
Cash generated from operations	250,062	270,247	266,834	275,292	268,207
Tax paid					
– Hong Kong profits tax paid	-80	-99	-134	-100	-26
– PRC enterprise income tax paid	-42,859	-38,769	-39,944	-44,483	-43,196
Net cash generated from operation activities	207,123	231,379	226,756	230,709	224,985
Investing activities					
Capital expenditure	-115,314	-113,203	-123,331	-123,232	-138,997
Land lease prepayments	-1,361	-1,135	-1,083	-1,792	-1,044
Acquisition of other intangible assets	-484	-162	-85	-174	-355
Proceeds from disposal of property, plant and equipment	13	12	123	6	44
Increase in deposits with banks	-54,780	-19,190	-41,884	-85,310	-42,980
Increase in pledged bank deposits		-162			
Increase in restricted bank deposits				-5,264	-1,398
Increase in trust loan receivable		-2,700	-14,000		
Cash receipt from loan				14,000	

Interest received	5,988	4,588	7,593	9,459	12,392
Proceeds from disposal of a joint venture					6
Proceeds from disposal of a subsidiary			140		124
Acquisition of investment in an associate		-39,617			
Acquisition of interest in an associate					-1,363
Acquisition of investment in a jointly controlled entity	-7	-20			
Dividends received from associates			458	1,120	2,062
Dividends received from unlisted securities	18	17	13	11	34
Net cash used in investing activities	-165,927	-171,572	-169,356	-191,176	-171,475
Financing activities					
Proceeds from issuance of shares under share option scheme	132	93	136	531	43
Capital injection from non-controlling interests of a subsidiary				400	
Interest paid	-1,292	-919	-651	-403	-329
Dividends paid to the Company's equity shareholders	-48,614	-50,201	-52,575	-55,425	-55,491
Dividends paid to non-controlling interests		-24			-21
Repayment of deferred considerations					-23,633
Repayments of bonds and other loans			-5,330		
Net cash used in financing activities	-49,774	-51,051	-58,420	-54,897	-79,431
Net increase/(decrease) in cash and cash equivalents	-8,578	8,756	-1,020	-15,364	-25,921
Cash and cash equivalents at beginning of year	87,426	78,894	87,543	86,259	70,906
Effect of changes in foreign exchange rate	46	-107	-264	11	-54

Annex 3: Consolidated Income Statement

	2009 RMB million	2010 RMB million	2011 RMB million	2012 RMB million	2013 RMB million
Operating revenue (Turnover)					
Usage and monthly fees	300,632	312,349	364,189	368,025	590,811
Value-added services fees	131,434	151,435	139,330	166,348	
Other operating revenue	20,037	21,447	24,480	26,040	39,366
	452,103	485,231	527,999	560,413	630,177
Operating expenses					
Leased lines	3,006	3,897	5,188	9,909	18,727
Interconnection	21,847	21,886	23,533	25,140	25,998
Depreciation	80,179	86,230	97,113	100,848	104,699
Personnel	21,480	24,524	28,672	31,256	34,376
Selling expenses			96,830	104,906	91,834
Cost of products sold					61,363
Other operating expenses	178,583	197,940	125,364	137,832	157,531
	305,095	334,477	376,700	409,891	494,528
Profit from operations	147,008	150,754	151,299	150,522	135,649
Other net income	1,780	2,336	2,559	2,208	
Non-operating net income	359	685	571	615	910
Interest income	5,940	5,658	8,413	12,661	15,289
Finance costs	-1,243	-902	-565	-390	-331
Share of profi t of associate		558	4,306	5,685	7,062
Share of loss of jointly controlled entity	-8	-18	-1	-1	
Profit before taxation	153,836	159,071	166,582	171,300	158,579
Taxation	-38,413	-39,047	-40,603	-41,919	-36,776
PROFIT FOR THE YEAR	115,423	120,024	125,979	129,381	121,803
Other comprehensive loss for the year that may be subsequently reclassified to profit or loss:					
Exchange differences on translation of financial statements of overseas entities	42	-135	-311	-6	-172
Share of other comprehensive loss of associates			-229	-16	-767
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	115,465	119,889	125,439	129,359	120,864
Profit attributable to:					
Equity shareholders	115,166	119,640	125,870	129,274	121,692

Non-controlling interests	257	384	109	107	111
PROFIT FOR THE YEAR	115,423	120,024	125,979	129,381	121,803
Total comprehensive income attributable to:					
Equity shareholders of the Company	115,208	119,505	125,332	129,252	120,754
Non-controlling interests	257	384	107	107	110
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	115,465	119,889	125,439	129,359	120,864
Earnings per share – Basic	5.74	5.96	6.27	6.43	6.05
Earnings per share – Diluted	5.67	5.89	6.20	6.36	5.98